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1997 REPORT ON THE WORLD SOCIAL SITUATION*

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Part Two. CORE ISSUES

1. Neither at the preparatory meetings for the World Summit for Social Development nor at the Summit itself was an attempt made to arrive at a comprehensive definition of social development. Indeed, it was realized at the outset that no agreement was likely to be reached and that attempts to force an agreement would only jeopardize the Summit. Rather than developing a comprehensive definition of social development, Summit participants identified three core issues - poverty, unemployment and discrimination - of concern to all countries.

2. In keeping with the approach taken at the Summit, this issue of the Report on the World Social Situation does not aim to provide an exhaustive treatment of global social trends and developments. Instead, Part Two examines the core issues identified at the Summit in order to provide background to the discussion of the measures needed or taken to advance the objectives agreed upon at the Summit.

Chapter VI

POVERTY

1. From its inception, the United Nations has made social development and poverty eradication one of its primary concerns. A review of the annual agendas of the General Assembly reveals a steady expansion over the years of its involvement in a wide array of poverty reduction issues, usually in tandem with economic development concerns. In support of the increasing attention given to social development as a goal of the international community, the United Nations has convened since 1990 a number of mutually supportive conferences renewing the priority given to social development.[1] Of special importance to these meetings has been the eradication of poverty and the reduction of disparities among groups and nations.

2. This chapter examines main trends in global absolute poverty and its relationship to world economic growth, and provides a tentative assessment of the progress made toward the goal of the eradication of global poverty and its present dimensions. It also provides an overview of key elements in a comprehensive strategy for poverty reduction and reviews recent research on selected issues and polices involved in designing a programme for the further reduction and eventual eradication of absolute poverty.

3. In order to provide a foundation for a quantitative assessment of global poverty, the chapter begins with a discussion of the characteristics of poverty and problems involved in the measurement of its various manifestations. It notes that while the entire range of its manifestations cannot be summarized in a single index, poverty is often measured by an income or expenditure level that can sustain a minimum level of living. For a full assessment of poverty and its manifestations, however, this measure of access to resources must be supplemented by additional indicators describing other attributes of poverty. Deficiencies of available statistics on poverty and indicators used to measure its severity and depth must also be taken into account when assessing the extent and nature of global poverty.

4. Despite inadequacies in available data, the statistical evidence supports the conclusion that while the overall average level of living of the developing countries taken as a group has increased at a rapid rate over the last quarter century, this impressive collective performance conceals the fact that large segments of the world's population have not benefited from this general improvement and are falling behind both in relative and absolute terms. A review of recent estimates of the number of people living below a common global poverty line indicates that while the overall incidence of poverty in the world appears to be declining, it still encompasses one quarter of the world's population and in many regions is on the increase. The chapter supports the increasing volume of information that there has been a tendency for an increase in inequality of living standards in the world across broad groups of countries.

5. In a review of policies for poverty reduction, the chapter describes a number of issues involved in designing a poverty reduction strategy and points to a number of policy priorities: the key role of an enabling environment for

macroeconomic growth in providing a supportive context for national efforts directed at poverty reduction; the importance of a wide range of domestic social services in reducing poverty, particularly those directed at reducing inequalities in the primary distribution of income through education and training and the provision of basic health services; the contribution that programmes providing greater opportunities to the poor can make to poverty reduction, especially through the enablement of individuals in their role as producers; the need to have information about the poor, particularly about who they are and where they reside, and to target poverty reduction efforts on the specific needs of the poor where they are concentrated; the necessity of providing for and promoting the well-being of those who are aged, too infirm or too young to care for themselves; and, finally, the importance of taking part in the general expansion of the world economy in a way that maximizes benefits to the poor.

A. Concepts and measurement of poverty

Poverty: What are we talking about?

6. Because of its multi-dimensional nature, it is difficult to provide a precise definition of poverty and the poor. Poverty is associated with a state of physical want characterized by insufficient means to meet minimum needs for nutrition, housing, health and education. It is often aggravated by lack of access to employment opportunities and by various forms of discrimination. Poverty has many manifestations: starvation, malnutrition, illiteracy, poor health, substandard clothing and housing, vulnerability to events and circumstances which place lives and livelihoods in jeopardy, environmental degradation and insecure employment or habitation, and the stigma associated with a precarious financial situation. In many cases, poverty is perpetuated by exclusion from decision-making and lack of participation in the political process and in business and cultural affairs.

7. Poverty occurs in all countries: as mass poverty in developing countries with low average incomes and as pockets of poverty in economically advanced countries with high average incomes. The poor everywhere suffer from isolation from productive employment, from basic social services and from civil, social and cultural life. Those living in a state of poverty are persons and families who by the nature of their circumstances must struggle continuously against malnutrition and deprivation. Poverty is a condition characterized by deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. Among the poor are the abject poor and utterly destitute lacking access to the most fundamental and elementary human requirements for life and whose very lives are thereby threatened by an ongoing lack of resources in dire circumstances of hopelessness. They are often older people, people with disabilities, indigenous people, refugees and internally displaced persons and those without family support structures. Poverty also includes the structural poor who have been negatively affected by the forces of modernization and development and those rendered poor, and in many cases destitute, by devastating wars, prolonged droughts and other natural calamities.

8. Poverty extends beyond those who suffer from deep, persistent and widespread want and isolation. The poor also include the indigent who must live below minimum acceptable standards in a given time and place and those who feel deprived of what is enjoyed by other people in the society of which they consider themselves to be a part. In this sense, poverty is not entirely a matter of absolute levels of living but must be assessed in relation to what is available to others. Extreme inequality in incomes and wealth creates conditions of relative poverty where many people exist on a minimal level of living and share only marginally in the benefits from economic growth and development.[2] As the process of globalization continues and education and communication improve, people who formerly compared their own status with that of those immediately in their vicinity are becoming increasingly aware of the living standards of the wealthy in their own countries and even of standards that prevail in other parts of the world.

9. Poverty affects disproportionately women and children, the weak and disabled and those in rural areas. In almost all countries, there are more women than men at the lowest level of income and households headed by women are among the poorest groups in every society. Extreme poverty at once creates and re-enforces the conditions for its continuation and deepening through its effect on children and the disabled. Poor nutrition, illiteracy and innumeracy, disease-ridden habitations and lack of immunization, and the disabilities and infirmities of the young and the old cause the stunting and wasting of children and the inability of adults to lead productive lives and contribute to society. Finally, absolute poverty is disproportionately located in rural areas, where people are isolated from markets and ideas and the poor are reduced to scraping out a livelihood from subsistence agriculture or working as low paid farm workers. Many of the rural poor, and some of those located on the fringes of urban areas, attempt to eke out a meagre living through uncertain and low productivity activities such as small-scale trading and commerce or petty services.

1. Measurement of poverty[3]

10. Because poverty is a complex and multidimensional phenomenon, it is difficult to measure. In order to assess fully the nature and extent of poverty, the entire range of its manifestations must be clarified and made quantitatively measurable through the use of indicators that reflect the different conditions defining poverty. However, while alternative indicators make it is possible to survey trends and conditions that describe poverty and appraise the effectiveness of policies directed toward the reduction and alleviation of its various manifestations, multiple sets of indicators are inherently difficult to summarize so as to provide a single, unique measure of poverty. This is particularly true when some attributes of poverty are present in a society and others are not.

11. Moreover, collecting information on the many specific characteristics of the poor - such as the sources of their income, family size, access to education, health, and sanitation services, and on attributes surrounding poverty such as discrimination and vulnerability - is difficult, costly and time-consuming. While progress is being made in collecting information for

monitoring poverty, and an increasing number of household surveys of living conditions are providing key data on the income and expenditures of the poor, comprehensive sets of indicators providing specific information on infant mortality, life expectancy and health conditions, protein consumption, adult literacy and other characteristics of the poor population are far from being systematically available at this time. Even when a full range of indicators is available for a country, it should be noted, disentangling the separate effects of these factors on the poverty population and evaluating the effectiveness of policies directed at poverty reduction remains a difficult exercise. Similarly, combining different into a single index presents difficult problems of proper weighting of the different attributes of poverty so as to arrive at a measure appropriate to all countries and all circumstances.

12. While all the manifestations of poverty cannot be summarized in a single index, and comprehensive sets of data on specific characteristics of the poor are not available for all or even most countries, a broad conventional measure of poverty which can be applied to a large number of countries is "an income or expenditure level which can sustain a minimum level of living". This working definition of poverty is interpreted to mean not only the consumption of food, clothing and shelter, but also access to education, health services, clean water and other basic necessities of life. It has the advantage of encompassing an entire range of needs and includes both privately obtained commodities and publicly provided goods and services. For purposes of internat ıal comparisons, a global poverty line can be set at a level representative of actual poverty lines in some of the lowest-income countries and interpreted as a measure of absolute poverty.[4]

Absolute poverty

13. A predefined minimum of level of income and expenditure per person or household is therefore used as the main index for assessing absolute poverty. A common approach to defining a global poverty line relevant for cross-country comparisons is to set the poverty line at a level corresponding to the cost of a bundle of goods deemed to assure basic consumption needs are met in the lowest-income countries. Depending on the chosen concept, the poverty line assumes minimum levels of consumption below which survival is threatened. People below this line may be further disaggregated into the poor and the ultra poor. A global poverty line approach allows for determining the size of the world's poor population in terms of the same level of real consumption available to each individual or household, regardless of where they reside. Because the global poverty line is usually set a minimal level, it precludes from the calculation of those living in absolute poverty the poor residing in the more economically advanced countries, where low levels of income nonetheless tend to be higher than an absolute poverty standard.

14. It should be noted, however, that a global poverty line is intrinsically limited in that it reveals nothing about many conditions and circumstances associated with poverty and, moreover, suffers from well-known deficiencies of the consumption of goods and services as a measure of welfare. While appropriate for assessing the dimensions of poverty at the global level, to get a clearer picture of poverty in a particular country a poverty line appropriate to the country should be established, and a range of social indicators for the

country, broken down when feasible by the poor and the non-poor, should be taken into account. While national averages for these latter indicators are available for many countries, insufficient information on social variables exists to assess separately trends and conditions of the poor and non-poor at the global level.

Relative poverty

15. While the elimination of widespread absolute poverty is at the core of development concerns, large inequities in incomes is also recognized as a significant and growing problem in many developed and developing countries. The relative poverty created by large disparities in incomes is a recognition that impoverishment is not just a matter of lack of resources and bare survival, but also what constitutes a minimal level of living as determined by the community in which one lives. Relative poverty therefore focuses on inequalities in the distribution of income and wealth rather than the absolute level of income available to different groups in the population. In order to assess the degree of inequality in the distribution of income (or consumption) among individuals or households, the percentage of all income received by the poorest segments of the population can be compared with the percentage of income received by the richest (or other) segments of the population. One common method is to divide the population into successive quintiles or deciles according to ascending income levels and then compare the proportion of income received by each income group. Another common measure of income inequality is the Gini income concentration ratio, discussed below.

16. These approaches to income comparisons focuses attention on disparities in the income or consumption between different segments of the population, regardless of how this income was obtained or the consumption was financed. Given data on the size distribution of income for different countries, broad patterns of relative income differences among countries can be assessed by reference to summary indicators of the degree of inequality such as the ratio of the percentage of income received by the highest and lowest income groups or the Gini concentration ratio measuring the skewness of the entire distribution. While these aggregate measures of inequality are appropriate to an assessment of broad global patterns of size distributions of income among different groups of countries, they provide an inadequate basis on which to assess the host of factors determining and affecting income distribution at the individual country level. Similarly, standards of relative poverty - and hence the definition of what constitutes an equitable distribution of income - differ from country to country, and cannot be evaluated at the global level using some uniform criteria relevant for all countries.

2. Indicators of poverty

17. The identification of levels, trends and patterns of poverty necessitates using economic and social indicators that can provide a profile of the poor and allow for an assessment of the effectiveness of different policies aimed at reducing absolute and relative poverty. Because of its complex nature and the limited volume and usefulness of available data, no one set of indicators can serve to measure all aspects of poverty. A fundamental constraint exists,

moreover, in that for reasons of data availability traditional measures of poverty and the poor population focus on the income dimension of poverty. This section sets forth some income (or consumption) measures of poverty used in the chapter to estimates the number of people living below a specified poverty line. When possible, these income-based measures should be supplemented by indicators of living standards and social conditions to provide a more complete profile of poverty.

Standard of living indicators

18. General levels of living for the vast majority of people are reflected in their household expenditure per person, which is the preferred indicator of the present standard of living. Looking to the future, however, the total resources available for all purposes - investment for future growth as well as consumption for present sustenance - is linked to its domestic production of goods and services. Here the preferred indicators are the level and growth in economic activity measured per capita, indices which reflect the productivity of the labour force and the potential for future increases in the standard of living.

19. National accounting aggregates for such series as real private final consumption expenditure (or total final consumption expenditure) and gross domestic product per capita provide some indication of average levels of living for the population as a whole and overall resource availability, respectively, although they may be subject to substantial measurement errors and problems associated with the cross-country comparison of different mixes of consumption and output. Household sample surveys used to compile size distribution data have frequently used consumption expenditure as their indicator of living standards. In order to improve the comparability of the distributional data used by the World Bank in its studies of poverty, reported household sample survey data are either based on consumption expenditure or adjusted to reflect it. These adjusted data form the basis of the World Bank's estimates of the number and percentage of the population living below a specified global poverty line discussed below.

20. Average levels and increases in GDP per capita are used as a basis for classifying countries by level of income and by rate of economic growth in this chapter. However, because a large proportion of the expenditures of the poor consist of goods and services which do not enter international trade, exchange rate translations of national currency estimates of consumption and production can lead to distortions in the relative economic distance between countries. For this reason, and to provide a consistent poverty line across countries, data relating to gross domestic product, total and per capita, have been converted on the basis of purchasing power parity indices (PPPs) rather than exchange rates.[5] In principle, purchasing power parity converts one unit of the currency of the numéraire currency, in this case, the United States dollar, into the number of units of national currency needed to buy some defined package of goods and services in some other country. However, PPPs are both difficult to estimate for reasons rooted in the comparability of the different kinds of goods and services bought and sold in different countries. Because they value all goods and services at some common set of prices, estimates of gross domestic product expressed as PPP weighted "international dollars" are regarded as superior for

purposes of poverty comparisons than those expressed at exchange rate weighted "United States dollars".

Poverty incidence indicators

21. While poverty among the population is recognized as a broader concept than simply the mere absence of money, the overall prevalence of poverty as traditionally measured refers to the percentage of people whose income or consumption falls below some established poverty line fixed in terms of a standard of living indicator. This poverty line may be defined in different ways:

1. A basic needs approach assumes that a minimum set of food and non-food requirements must be satisfied. This minimum basket determines the requisite minimum income/consumption level.

2. A food-ratio approach assumes a certain food-income ratio characterizes the pattern of consumption behaviour. This method uses actual expenditure patterns to determine the poverty line and avoids the problem of identifying minimum nutritional needs.

3. A percentage of mean income approach describes poverty as a situation of relative deprivation. This requires the determination of an income indicator (mean level) and a percentage of this indicator (e.g., 40, 50 or 60 per cent).

4. The percentile approach ranks the population by income level and identifies the poor in terms of the lowest percentiles of the distribution.

22. In a global comparison, the poverty line indicator should be set at the same level for all countries so that each individual is measured against the same standard of basic needs or nutritional requirements. In this way, the incidence of poverty, measured by a headcount ratio showing the number of poor living below a threshold poverty line as a proportion of the total population, can then be calculated. This index does not measure the depth of poverty, but rather treats all poor alike, regardless of whether they are near the poverty line or markedly below it. Measured in this way, a headcount ratio is a simple index of the severity of absolute poverty where a higher poverty line increases the estimated incidence of poverty and a lower poverty line decreases it. This shows the proportion of the population within income or expenditures below the poverty line.

23. In order to estimate a headcount index showing the relative number people living in absolute poverty both a specified poverty line and data on the distribution of income or consumption are required. When preparing the estimates of the number and percentage of the population living in poverty discussed below, the World Bank used a standard of I$1 (one international dollar) per person per day measured in 1985 international dollars as the minimum poverty line for consistent international comparisons.[6] On the basis of distributional data prepared for this purpose, the size of the poor population was determined in a sample of countries in each main world region. Because the comparability of underlying household surveys was limited, an effort was made to

standardize the available data on the concept of consumption and adjust the date of the distributions to the same reference years. The World Bank cautions that the resulting headcount index differs from previous estimates prepared by the Bank and those of other studies of poverty.

Poverty depth indicator

24. The pattern of poverty cannot be described by the overall magnitude of the numbers in poverty alone but also requires a poverty depth indicator of the extent to which the incomes of the poor fall below the poverty line. High inequalities and a very low average income among the poor imply greater depth to poverty and worse living conditions than less inequality and a higher average income. Reductions in poverty would then be measured both in terms of a fall in the percentage of the poor population or through increases in the average income of the poor and improvements in its distribution.

25. One indicator of the depth of poverty is the poverty gap used by the World Bank. This indicator measures the distance between the mean income (or expenditure) of the poor and the poverty line, expressed as a ratio of the poverty line. The sum of all poverty gaps may be interpreted as the minimum amount of transfers required to bring the entire poor population up to the poverty line. When multiplied by the headcount index it yields the poverty gap index, or the poverty gap as a percentage of the poverty line. While indicating how far, on average, a poor person or household lies below the poverty line, and hence the depth of poverty within the poor population, it does not provide a precise measure of the extent of inequality among the poor.

Relative poverty indicator

26. Relative poverty is reflected by marked inequalities in the size distribution of income among the population and in the contrasts in consumption that accompany a poor distribution of income. There are many alternative aggregate measures of income inequality, such as the Lorenz curve and Gini concentration ratio. Another commonly used indicator of relative poverty focuses on the relative differences in incomes received by the poorest and other segments of the population. This latter ratio allows the average expenditures/ incomes of the poor to be compared with the average expenditures of higher income groups.

Social indicators

27. Measures of poverty incidence and the poverty gap do not normally include the benefits the poor derive from the provision of public goods nor measure the social dimensions of development. Social indicators can supplement poverty measures based on income/consumption concepts and provide both information about specific characteristics of the poor and their access to social services such as education and health care. However, specific social indicators, such as those on infant mortality, primary school enrolment and life expectancy are not regularly compiled with reference to the poor population and therefore reflect only indirectly the actual conditions of the poor.

3. Estimating the number of world poor

28. When attempting to estimate the number and percentage of the world's population who are poor, direct evidence on the extent and change in poverty in different areas of the world is often sparse or non-existent, making a quantitative assessment of the distribution and change in global poverty difficult to make.[7] In recent years, however, efforts to improve data quality and increase country coverage have been made by the United Nations (under the National Household Survey Capability Programme) and the World Bank (under the Living Standards Measurement Study and the Social Dimensions of Adjustment Project in Sub-Saharan Africa). In the case of the developed market economies, microdata from the Luxembourg Income Study project begun in 1983 contains information for 25 countries, and allows a comparison of cross-country income distributions in a unified household income database environment. Finally, a considerable amount of additional data relating to the distribution of income have been compiled at the country level, and improvements in the methodology of poverty assessments using distributional data have yielded more reliable estimates of the number of poor than in the past. In addition to data on income distribution, an increasing volume of social indicators relevant for assessing poverty have also become available and, as discussed above, a large literature on alternative poverty measures exists.

29. Despite these improvements, it remains difficult to bring separate estimates together as part of a consistent and comparable assessment of global poverty reduction efforts. First, official poverty lines established at the country level to measure the number of poor, while appropriate in the context of the country, do not refer to a common poverty line, and hence may include individuals with a substantially higher (or lower) standard of living than estimates made for another country. In this regard, when establishing official poverty lines at the country level, there is a marked tendency for the real value of the local poverty line to increase with the average per capita income of the country.[8] Second, while more comparable than in the past, country data on the distribution of income are nonetheless often based on different survey methods and various definitions of income, and therefore require further standardization before they may be used as a basis for assessments of poverty across countries or over time. Since estimates of the number of poor can be sensitive to where a common poverty line is set and how it is translated into a level appropriate to each country, there is a need to use a common methodology that ensures that the conditions defining poverty are the same in each country and that similarly situated individuals are included or excluded as among the poor regardless of where they reside. And third, the availability of poverty statistics and complementary data on education, health and housing for the poor differs markedly from one region to another, with considerable coverage in Latin America, East and South Asia and East Europe and Central Asia but only a few sets of data on poverty incidence for countries in North Africa, sub-Saharan Africa and West Asia. These problems of estimation and differences in data availability imply that estimates of poverty must be regarded as only approximate and for these latter regions - which include many of the world's poorest countries - are likely to be imprecise.

B. Trends and patterns in world economic growth and global poverty

30. This section looks at the linkages between economic growth and poverty reduction. It presents evidence from a recent World Bank study on progress and setbacks in reducing absolute poverty in developing and transition countries. That study provides a profile of poverty in different areas of the world and identifies the changes that have taken place in the number of poor and the incidence of poverty during the past 5 to 10 years. The section then reviews the recent experience of the transition economies and examines the increase in the number of poor that has occurred in the aftermath of the decline in economic activity registered in this decade. Finally, it addresses the long-term pattern of world economic growth and the rate of increase in per capita GDP in different parts of the world.

31. While this section focuses on the income dimension of poverty, other dimensions of poverty should not be overlooked. Extreme poverty is often characterized by malnutrition, hunger, illness and illiteracy; absolute poverty is usually associated with lack of access to productive resources and discrimination in or exclusion from the work place, educational opportunities and the political process. Nonetheless, the income dimension is at the core of most poverty problems, and poverty frequently arises from a lack of sufficient income to purchase a critical minimum of goods and services for active participation in society. Understanding the relationship between economic growth and poverty reduction and income inequality therefore provides a key perspective on the problem of global poverty and prospects for its eradication.

1. Dimensions of global poverty

32. Divergent trends in the pattern of long-term world economic growth have led to marked contrasts in eradicating poverty and inequality. At one extreme, the rapid growth experienced by most countries in South and East Asia, combined with supportive macroeconomic and trade policies and an egalitarian pattern of income distribution, helped diminish absolute poverty substantially over the past 25 years. At the other extreme, the incidence of poverty has increased in those low-income countries - especially the poorest countries in sub-Saharan Africa - that suffered from a general economic decline during the past quarter century. In Latin America higher levels of poverty in some middle-income countries may be attributed to the debt crisis and the subsequent stabilization policies, which hurt the poor in the medium term. In other countries slower economic growth, very unequal access to productive resources by different groups in society and inappropriate policies, regulations and practices all contributed to rising numbers of poor. In Eastern Europe and the States of the former Soviet Union the sharp economic decline increased poverty considerably during the 1990s.

33. A comprehensive assessment of the number and distribution of people living in absolute poverty and changes in their status over time is difficult to carry out because of poor data availability and questions about estimation methodology. Previous estimates of the incidence of poverty have covered only a limited proportion of the world's population and have been based on different methodologies for different regions. The World Bank has attempted to track the

number and percentage of the world's population living at or below a common poverty line over a period of years.[9]

Specifying a common poverty line

34. In preparing its estimates of the number of world poor the Bank drew upon household surveys of income and living conditions. To improve the quality of the data for purposes of cross-country studies, the Bank standardized the results of individual country surveys for such variables as household size, private consumption and the date of the survey. In order to ensure that the same standard of living was used as the criterion for estimating the number of poor in different countries and regions, a common poverty line for consistent cross-country comparisons was established. This standard poverty line, equal to I$1 per day per person measured in purchasing power parity-adjusted 1985 United States dollars, provides a consistent measure for determining the number of poor across countries.[10] In studies of poverty in Latin America, a poverty line of I$2 per person per day is often used; in Europe and Central Asia a standard of close to I$4 per person per day is frequently used, reflecting the higher average level of income. China's official poverty line has been estimated at approximately I$0.60 per person per day. The I$1 per person per day standard used by the World Bank represents a constant real poverty line relevant for international comparisons of absolute poverty, rather than the relative poverty that prevails in countries with high average levels of consumption expenditure per capita. This I$1 a day standard for a poverty line is used to establish an incidence of moderate absolute poverty as measured by a headcount ratio, or proportion of poor in the population. Extreme absolute poverty, as contrasted with moderate poverty, refers to a level of income sufficient to purchase only a minimum food basket. The degree of extreme poverty is reflected by the poverty gap index, which measures the mean distance below the poverty line (zero for the non-poor), expressed as a percentage of the poverty line.[11]

Patterns of poverty in developing and transition countries

35. Using a poverty line of I$1 a day (in 1985 prices) the World Bank estimates indicate that, although inroads have been made in reducing the incidence of poverty throughout the world, more than a fifth of the world's population is living on less than I$1 a day and the number of people in poverty continues to rise (see table 6.1). Between 1987 and 1993 the overall incidence of poverty in transition and developing countries fell slightly, from 30.0 to 29.5 per cent, but the number of the world's poor rose from 1.23 billion to 1.31 billion. The overwhelming majority of people living on I$1 a day or less are located in South Asia, sub-Saharan Africa, the countries of Indochina, Mongolia, Central America, Brazil and the hinterland provinces of China, with the incidence of poverty particularly high in sub-Saharan Africa, South Asia, and China.

Table 6.1 Number of people and percentage of the population in developing and transition countries living on less than US$ 1 per day, 1987-93

Region	Per cent of population covered by at least one survey	Number of poor (millions)			Headcount index (percentage of population below poverty line)			Poverty gap (percent)		
		1987	1990	1993	1987	1990	1993	1987	1990	1993
Developing and transition countries	85.0	1227	n.a.	1314	30.1	n.a.	29.4	9.5	n.a.	9.2
Eastern Europe and Central Asia	85.9	2	n.a.	15	0.6	n.a.	3.5	0.2	n.a.	1.1
Developing countries	85.0	1225	1261	1299	33.3	32.9	31.8	10.8	10.3	10.5
Latin America and Caribbean	83.9	91	101	110	22.0	23.0	23.5	8.2	9.0	9.1
Middle East and North Africa	46.7	10	10	11	4.7	4.3	4.1	0.9	0.9	0.6
Sub-Saharan Africa	65.9	180	201	219	38.5	39.3	39.1	14.4	14.5	15.3
South Asia	98.4	480	480	515	45.4	43.0	43.1	14.1	12.3	12.6
China, East Asia and Pacific	88.0	464	468	446	28.2	28.5	26.0	8.3	8.0	7.8

Source: *Table 1.2 of World Bank, "Poverty Reduction and the World Bank" (15 April 1996).*

Note: These estimates revise and update those in Implementing the World Bank's Strategy to Reduce Poverty (Washington, D.C., World Bank, 1993). There are several differences between these numbers and previous estimates of the World Bank, including those in World Development Report 1990 (Washington, D.C., 1990). New household survey data have become available, and a total of 122 surveys for 67 countries were used in constructing the above estimates. They also incorporate new estimates of purchasing power parity exchange rates for converting I$1 per day (in 1985 prices) into local currencies. Figures are estimated from those countries in each region for which at least one survey was available for the period 1985-94. Survey dates often do not coincide with the dates in the table. Survey estimates were adjusted using the closest available survey for each country and applying the consumption growth rate from the national accounts. The number of poor were then estimated by region based on the assumption that the sample of countries is representative of the region as a whole. This assumption is obviously less robust in the Middle East and Africa than elsewhere. Details on data and methodology can be found in Martin Ravallion and Shaohua Chen, What can new survey data tell us about recent changes in living standards in developing and transitional Economies", Policy Research Department (Washington, D.C., World Bank, 1996).

Latin America and the Caribbean

36. The 1980s were a devastating decade for the poor in Latin America and the Caribbean, as poverty increased substantially as a result of the debt crisis. The very high level of income inequality in the region means that the incidence of poverty is high relative to income. The recessions that accompanied the adjustment process of the 1980s increased income inequality and poverty. The urban poor and the poor in Brazil, Peru and several small Central American countries were particularly hard hit by falling living standards. As the incidence of poverty rose among the urban poor, it disproportionately affected single mothers, parents with little or no education and young people, for whom there were insufficient jobs. Low agricultural productivity and the lack of non-farm jobs intensified poverty among the poorest 10 to 20 per cent of the population concentrated in remote rural areas. Since 1989 there has been an economic revival in Latin America, and robust rates of expansion in some countries have helped stabilize the incidence of poverty. Nonetheless, the number of people in Latin America living on less than I$1 a day is estimated to have risen from 101 million in 1990 to 110 million in 1993.

North Africa and West Asia

37. In North Africa and West Asia average income is relatively high, the incidence of absolute poverty is relatively low and income inequality is relatively modest. As in Latin America and the Caribbean, poverty is most pronounced in rural areas, but urban poverty is rising as lack of opportunity in rural areas causes rural-urban migration. Poverty is especially prevalent among the self-employed engaged in small-scale trading activities and among the elderly, people with disabilities and households headed by women. Social indicators continue to improve in the region, but remain below levels achieved in countries with comparable levels of per capita income. The World Bank estimates that the percentage of the population living on less than I$1 a day was less than 5 per cent in 1987 and declined to just over 4 per cent by 1993; the absolute number of poor remained about the same over this period. Because employment and poverty levels are closely linked to the rate of economic growth, which has been slow and halting in many of these countries, increasing the pace of growth is an essential prerequisite of creating employment opportunities for the poor and providing social services, such as basic health and education, which benefit poor households.

Sub-Saharan Africa

38. The people of sub-Saharan Africa remain among the poorest in the world, with a high incidence of absolute poverty and a pattern of income distribution characterized by large gender differences. The region also has the greatest depth of poverty, as measured by the poverty gap index. Countries in the region also tend to have more unequal distribution of income (and expenditure) than most other developing countries. Poverty in the region is characterized by lack of access to productive resources, employment opportunities and social services; low endowments of human capital; and inadequate programmes and policies directed at the special needs of the poor. Although urban poverty is growing rapidly, the poor in sub-Saharan Africa are still overwhelmingly found in rural areas; they generally have less land, capital and education, and lower health status

and lower entitlements than people in higher income groups. The availability of social services in most sub-Saharan African countries is the lowest in the world. The average gross primary school enrolment rate, which declined in many countries in the Sahel during the 1980s, is significantly lower than in other regions; infant mortality is higher than in the low-income countries of other regions; and life expectancy is low and probably falling, given the impact of AIDS, as described earlier in the section on health (chap. III).

39. Growth rates of per capita incomes were negative in most countries in sub-Saharan Africa during the 1980s and 1990s, and living standards are eroding. Despite a slight decline in the incidence of poverty from 1987 to 1993, more than 200 million people were estimated by the World Bank to be surviving on less than I$1 a day in 1990, and the number of poor rose almost 40 million from 1987 to 1993. While more rapid growth is obviously essential to poverty reduction in sub-Saharan Africa, faster aggregate economic growth alone is not likely to have a discernible effect on poverty indicators or the number of poor people. A pattern of growth that emphasizes increased demand for labour and higher productivity through access to productive assets and technologies, particularly in agriculture, is also required to make significant progress towards poverty reduction.

South Asia

40. According to the World Bank, the largest number of people living in absolute poverty and the highest incidence of poverty are in South Asia, where almost 40 per cent of the total number of people in the world living on less than I$1 a day reside. This high proportion of world poverty reflects not only the size of the region's population but also its relatively low per capita income and more modest income inequality; more than 40 per cent of the population in South Asia is below the poverty level, an even higher proportion than in sub-Saharan Africa. As in sub-Saharan Africa, the poor in South Asia tend to reside mainly in rural areas, to be largely illiterate and to depend on subsistence agriculture and low-skill wage employment for their livelihood. The poverty gap index for the region is relatively high; on average a poor person or household is more than 12 per cent below the I$1 a day poverty line. In many parts of the region women have less education, poorer health, lower life expectancy and work longer hours than men. Social indicators rank among the weakest in the world, with high infant mortality and low school enrolment rates. Comparison of estimates of the number of poor in 1987 and 1993 shows that the number of people living in absolute poverty remained unchanged between 1987 and 1990 but rose between 1990 and 1993, as reform programmes designed to deal with increasing fiscal and balance of payments difficulties were introduced. The incidence of poverty fell from 1987 to 1993 and, with the recent return to more rapid growth, poverty reduction should improve. More than economic growth is needed to meet the needs of the region's poor, however. Given South Asia's weak social indicators, improving access by the poor to basic education, health, nutrition, water and sanitation, and family planning services must be seen as a key priority.

East Asia

41. In contrast to other regions, a dramatic reduction in poverty has taken place in East Asia and China over the longer term. In 1970 average annual income in the developing countries in East Asia and the Pacific was less than I$1,500; over the following two and a half decades it more than tripled. This rate of increase can be explained by the rapid accumulation of human and physical capital and the allocation of that capital to highly productive investments. With rapid growth the number of poor people and the incidence of poverty have continued to drop sharply in the region. The incidence fell from more than 23 per cent in 1987 to less than 14 per cent in 1993, according to World Bank estimates. As in other regions, poverty is more pronounced in rural areas, but income inequality tends to be more modest than in Latin America, Africa or West Asia. Strong gains were recorded in social indicators over the past quarter century, as life expectancy rose steadily, infant mortality was cut in half and educational opportunity expanded. The Bank cautions that growth alone cannot be relied upon to reduce poverty in countries in which the poor are concentrated in remote areas. Even with continued rapid growth, narrowly targeted programmes will be necessary to reach remaining pockets of poverty.

China

42. The large drop in the region's incidence of poverty reflects the marked progress in reducing poverty that occurred in China during the early 1980s, following reforms in agriculture. Since then poverty reduction has continued at a slower pace despite rapid overall growth. Periods of macroeconomic tightening have led to temporary setbacks in poverty reduction, and overall progress has been slowed by declining gains in agricultural productivity and relatively limited rural migration to fast-growing urban and coastal areas. World Bank estimates of poverty indicate that the share of the population living on less than I$1 a day increased between 1987 and 1990 and fell thereafter. More data and analysis are needed to understand why the tremendous gains in poverty reduction recorded in China during the 1970s and early 1980s have slowed.[12] As in the case of other countries in East Asia, even broad-based and labour-intensive growth cannot be relied upon exclusively to reduce the number of poor people in China. Comprehensive programmes designed to increase access to basic services and generate employment opportunities for the poor will also be required.

Eastern Europe and Central Asia

43. In the transition countries of Eastern Europe and the former Soviet Union per capita income is relatively high and the incidence of poverty is the lowest among the regions for which estimates have been prepared. But poverty has increased sharply in the region; output and employment fell precipitously in the late 1980s and early 1990s, and income inequality rose as these countries introduced reforms intended to restructure their economies, raise their efficiency and improve their external account positions. The incidence of absolute poverty is estimated to have risen from 0.6 per cent in 1987 to 3.5 per cent in 1993. In most of these countries poverty is shallow, however, with many households concentrated around the poverty line, and there is evidence of considerable movement into and out of poverty. The new poor in this region

are largely working families who are hampered in their ability to adjust to a changing labour market by limited education. Pockets of deep poverty have also appeared, and vulnerable groups, such as elderly non-working pensioners and the unemployed, have seen their incomes decline significantly. Successful implementation of the transition from state socialist economies to more market-oriented economies is a necessary condition for restoring economic growth in the region and reducing poverty. As this process continues, safety nets will be needed to protect low-income recipients of social transfer benefits and to target assistance to those most in need.

Relationship between economic growth and poverty reduction

44. According to the World Bank, the incidence of poverty in transition and developing countries fell slightly between the late 1980s and the early 1990s, but absolute poverty continues to affect more than 1.3 billion people. Remarkable progress has been made in reducing the number of poor people in those parts of the world in which economic growth has been both rapid and broad based, most notably in East Asia. The proportion of the population in poverty has also been reduced in South Asia, where output per capita rose by more than 2 per cent a year over the longer-term, and in North Africa and West Asia, where growth has been slower and more erratic but where income has risen. Prospects for economic growth and further substantial declines in poverty in Asia, where over 70 per cent of the world's absolute poverty is concentrated, remain favourable. The situation in much of Latin America, though fragile, appears promising, as a continuing recovery from the setbacks of the 1980s sets the stage for longer-term economic expansion and the potential for significant reductions in poverty. In contrast, sub-Saharan Africa has experienced negative per capita growth and a high and rising incidence of absolute poverty. Increased institutional capacity and macroeconomic stability, without which no country has achieved sustained reductions in poverty, must be achieved in sub-Saharan Africa if the incidence of absolute poverty is to be reduced.

45. While economic growth is not the only factor affecting the standard of living of the poor and the extent of absolute poverty, and poverty reduction depends upon much more than rapid and broad-based growth, economic growth nonetheless remains the main channel through which the standard of living is raised and the benefits of a larger volume and wider variety of goods and services are made available to all segments of the population. The impact of growth on poverty reduction, however, depends not merely on the pace of expansion but also on the distribution of growth income. If growth is rapid and income distribution becomes flatter, the number of poor living in absolute poverty can be reduced significantly. Conversely, if growth is slow or halting and income inequality widens, absolute poverty may increase. The distribution of income; its structure in terms of earnings from wages, rent, interest and profits; and factors affecting the generation of income, such as employment opportunities, the allocation of productive assets and credits, opportunities for enhancing skills and education, and introducing new technologies, are all key determinants of progress in reducing poverty over the longer term. Policies directed at promoting a more equitable distribution of income and assets will have to be implemented if the effect of growth on poverty reduction is to be maximized.

2. Poverty in countries with economies in transition

46. The incidence of poverty and the experience with poverty-reducing policies have been fundamentally different in the transition economies and the developing countries. Poverty in the transition economies of Central and Eastern Europe, the Baltic States, Belarus, the Russian Federation and Ukraine has not been endemic and pervasive, as it is in many developing countries. In the transition economies the percentage of the population living in absolute poverty increased from 0.6 per cent in 1987 to 3.5 per cent in 1993; in the developing countries the percentage of the population living in absolute poverty declined from 33.3 per cent to 31.8 per cent over the same period.

47. Using a higher poverty line of $120 per capita per month in 1990 prices, the incidence of poverty in Central and Eastern Europe rose from about 3 per cent in 1987-1988 to 25 per cent in 1993-1994 (table 6.2). Use of the higher poverty level caused almost no increase in the incidence of poverty in the Czech Republic, Slovakia and Slovenia, and poverty remained at a low level in Hungary. Steep increases were seen in Bulgaria and Romania (to more than 30 per cent) and, to a lesser extent, in Poland (to nearly 20 per cent). In the Baltic States, Belarus, the Russian Federation and Ukraine the incidence of poverty rose to 25-50 per cent; in Moldova the incidence of poverty rose to 65 per cent. In the Central Asian countries the higher initial poverty rates in 1987-1988 (of 15 per cent on average) rose to an average of 50 per cent in 1993-1994.

48. With the exception of the Central Asian countries, where poverty was initially more widespread, the situation in the transition countries resembles in some respects that of the developed countries during the depression of the 1930s, when a sharp decline in economic activity thrust many of those who had been enjoying a reasonable standard of life into poverty.

Table 6.2 Estimated poverty headcount in the transition economies 1988-94

Country	Poverty headcount (percentage) 1987/88	1993/94	Total number of poor (in millions) 1987/88	1993/94
Eastern Europe				
Bulgaria	2	33	0.1	2.9
Czech Republic	0	<1	0	0.1
Hungary	<1	3	0.1	0.3
Poland	6	19	2.1	7.4
Romania	6	39	1.3	8.9
Slovakia	0	<1	0	0.0
Slovenia	0	<1	0	0.0
Subtotal	3.3	25.5	3.6	19.6
Baltic States				
Estonia	1	40	0.02	0.6
Latvia	1	25	0.03	0.7
Lithuania	1	46	0.04	1.7
Subtotal	1	38	0.1	3.0
Central Asian Republics				
Kazakhstan	5	50	0.8	8.5
Kyrgyzstan	12	84	0.5	3.8
Turkmenistan	12	57	0.4	2.2
Uzbekistan	24	47	4.8	10
Subtotal	15	52	6.5	24.5
Other former Soviet Union countries				
Belarus	1	23	0.1	2.4
Moldova	4	65	0.2	2.8
Russian Federation	2	45	2.2	67.7
Ukraine	2	41	1	21.4
Subtotal	2	44	3.5	94.3
TOTAL	4	38	13.6	141.5

Source: Branco Milanovič, "Income, inequality and poverty during the transition," World bank Research Paper Series, No. 11 (Washington, D.C., World Bank, 1996), pp. 93-94.

Notes: Poverty line is $PPP 120 per person per month at 1990 prices. Regional means are weighted averages.

The centrally planned model for growth, equality and poverty reduction

49. Widespread poverty is a new phenomenon for many economies in transition. Although poverty existed before the beginning of the systemic transformation, the present rise in poverty is largely a product of external shocks and the country-specific strategies chosen for transformation. According to World Bank estimates, the number of absolute poor in the transition economies grew nearly sevenfold - from 2.2 million in 1987 to 14.5 million, or 3.5 per cent of the population, in 1993. This increase was caused largely by the erosion in real wages and decrease in entitlements, including cutbacks in the provision of social services. Contributing to the increase in poverty has been the difficulty the transition economies have experienced in implementing adequate safety nets as a result of resource constraints and the unanticipated increase in poverty, the magnitude of which was not foreseen at the outset of transition. The social costs of economic reform moved to the centre of political debate in many economies in transition, forcing Governments to rethink their social policies and to introduce, sometimes belatedly, social welfare measures aimed at abating growing poverty.

50. Now that the elimination of poverty has once again risen to the top of the international agenda, a study of poverty in the transition economies is highly relevant. It identifies in very stark terms the possible conflicts between liberty and equality and poses questions about the extent and effectiveness of admissible government action in pursuit of socio-economic goals. All countries can be said to adopt, either implicitly or explicitly, a socio-economic model. The experience of the centrally planned economies illustrates how the choice of a particular model affects the overall socio-economic situation, and shows that the transition from one model to another can have profound consequences for poverty.

51. The model that the transition economies rejected when they adopted central planning was essentially the model of "civil society" advocated by the philosophers of the Enlightenment.[13] In contrast to tribal societies, which were held together by ties of kin and blood and may have been more virtuous and egalitarian, "civil society" was a highly segmented society in which individuals were motivated by self-interest. Under the rule of law - and almost spontaneously - civil society witnessed an orderly and dynamic accumulation of prosperity unprecedented in human history.

52. According to the philosophy underpinning the centrally planned economies, civil society served the interests of only one class, the bourgeoisie, and would eventually lead to mass poverty.[14] The way to abolish poverty, then, was to abolish private property and the class-based system that created it. Centrally planned economies did not arise spontaneously, but were imposed by force on resisting populations. The costs involved varied across different countries; the full costs, especially in terms of lives lost, are still coming to light as archives are opened. In almost all cases, the greatest costs were borne by the peasantry who were dispossessed of their land and capital (carts, farm implements, horses, etc.) and forced into collectives. The agricultural sector was expected to generate surpluses which, under central planning, would make possible "extensive" growth, particularly of heavy industry.

53. One of the justifications for central planning was the universal and egalitarian provision of social benefits, which were granted to all citizens and were not tied to individual work efforts or contributions. Free universal access to health care, education and other social services provided an important guarantee of social security for the entire population (even if certain sectors of society maintained privileged access to such services). The centrally planned system also ensured that those requiring access to health care received it: employment was guaranteed and workplaces often had medical facilities or ensured that workers received regular check-ups. (For a discussion of the provision of health care in the centrally planned economies, see chap. I.)

54. The central planning system succeeded in narrowing inequality in measured income[15] and eliminating absolute poverty. Income differentials across occupations, sectors and regions were allowed, but these differences were typically narrower than those in the developed market economies. The scope for personal or enterprise-wide incentives was limited as enterprises producing unwanted and low-quality products were rewarded in the same way as companies producing high-quality items in demand.

Difficulties with the central planning model

55. By the 1960s, it had become impossible to subject the agricultural sector to the same level of coercion as before, and the model of "extensive" growth was replaced by an "intensive" model of growth. The basic problem with central planning - the fact that a central bureaucracy is much less effective than the market at efficiently allocating scarce inputs - remained unresolved, however.

56. By the mid-1960s, the growth rates of the planned economies started to slow, ultimately declining to zero or worse.[16] The most striking feature of this slowdown was that it occurred at levels of per capita income and consumption far lower than those attained elsewhere in Europe; central planning had resulted in both a lower standard of living than that enjoyed in other European countries and declining living standards. This experience differed from that of the poorer European market economies, such as Ireland, Portugal and Spain, which witnessed rapidly rising living standards as they caught up with their neighbours.

57. Even when growth started to slow, progress in reducing poverty continued. Some countries, such as the Soviet Union, benefited from favourable developments in the terms of trade. Other countries, such as Poland, relied on foreign borrowing to help maintain living standards. In the long run, of course, continued poverty reduction could not be sustained without economic growth; by the late 1980s poverty rates measured in national terms started to increase.[17] The poverty profile shifted towards urban areas - which by then contained the largest share of the population - and young families with children.

58. When central planning was abandoned and a new model that allowed for initiative and incentives adopted, Governments should have prepared the public for the widening gap in income and consumption which would ensue in the short term. Instead, Governments generally failed to educate the public about these aspects of the reform process, and the public expected immediate prosperity as a result of reform. In many countries these hopes gave way to disillusionment as it became apparent that the transition would be long and costly and that the growth produced by the incentive system would not be adequate to lift the poorest out of poverty in the short term.

Poverty during the transition

59. Transition began with large declines in output, which inevitably meant less employment and income for much of the population. As a result living conditions deteriorated and poverty rates rose.

60. The timing, extent and duration of the declines in output varied considerably across the transition countries. The largest decline in output - about 35 per cent - occurred in the Russian Federation; other transition economies experienced about a 20 per cent decline in GDP (see table 6.3). Poland has come closest to regaining its 1989 level of output but that level was already low because of the economic difficulties of the 1980s.[18] The hardest hit sector was usually industry, where output declined by more than 50 per cent in several countries. In all countries, the decline in industrial production was greater than the decline in GDP.

61. These declines in output were related to the theoretical foundations of the central planning system, under which there had been little reason to build factories that could compete on world markets or that could supply goods the population actually wanted. Instead the function of industry had been to provide the goods that planners had determined the population wanted, which were then distributed in an egalitarian fashion. Central planners paid little attention to the environmental impact of the industries they were creating. Many of these industries were producing output that was worth less than the cost of producing the inputs, and producers were unable to supply goods that the population demanded.

62. The liberalization of economic activity brought about the closure of many factories and the unemployment of their labour forces, but also led to an increase in "shadow" or "second economy" activities.[19] Moreover, with the move to a market economy service industries sprung up. For these and other reasons there was often a sharp difference between the decline in measured real incomes and the decline in measured GDP.

63. Before the transition important safety nets were in place in centrally planned economies, some of them handled by State-owned enterprises. But the "transformation recession" affected these institutions as well. The immediate result was an increased incidence of poverty.[20]

Table 6.3 Development indicators for some transition economies, 1995

Country	GDP (constant prices)	Gross industrial production (constant prices)	Real wages[a]	Real income[b]	Unemployment rate (percentage)
Bulgaria	79.8	52.1	48.8	61.0	10.5
Czech Republic	84.5	72.6	93.1	101.2	2.9
Hungary	86.0	79.7	85.3	83.7	10.4
Poland	98.6	88.5	78.4	76.0	14.9
Romania	81.7	52.4	75.6	79.0	8.9
Slovakia	83.8	63.8	102.9	106.0[c]	13.1
Russian Federation	65.5	53.4	48.7	89.0	3.5[d]

Source: National statistical sources.

Notes: For all columns except unemployment, 1989 = 100.

[a] Average nominal wage deflated by the national consumer price index.

[b] Nominal gross income of the population deflated by the consumer price index.

[c] 1994 data.

[d] Share of registered unemployed. Combined with the unemployed no longer registered the figure would be about 7.2 per cent. See Universitet Severnoi Karoliny v Chepel Khile. "Monitoring ekonomicheskikh uslovii v Rossiiskoi Federatsii," *Rossiiski monitoring ekonomicheskhogo polozhenia i zdorovia naselenia 1992-95* (February 1996), p. 13.

64. Where it was conducted at all, poverty analysis was undertaken in these economies only in the late 1980s. Introducing household surveys to measure individual and family income has allowed poverty headcount estimates to be made in these countries, but these estimates have been made using different methods, thereby limiting the possibility of direct international comparison. Other problems also cast doubt on the validity of these estimates. First, important conceptual gaps exist in the statistical system of these economies. Changing from the national account system of Net Material Product (NMP) to System of National Accounts (SNA) accounting involves an entirely different usage of pricing and accounting. Entire sectors such as education, health and social affairs, previously considered non-productive and therefore excluded from the national accounts, need to be priced and accounted for. The theoretical and practical difficulties are enormous. Second, because of serious shortcomings in

measuring the contribution of the informal sectors, estimates of poverty incidence and headcounts based on household surveys may conceal important private sector activities and incomes which are not reported in order to escape taxation. In general, household surveys before the transition tended to underestimate poverty while post-transition surveys tend to overestimate it by inadequately accounting for informal sector incomes.

65. Discrepancies in the data on income and poverty are widespread in the Russian Federation and yield a fuzzy picture of poverty. The figure for real incomes in the Russian Federation shown in table 6.3 is difficult to reconcile with some estimates of a catastrophically sharp increase in poverty, for example. Although measured 1995 GDP in the Russian Federation was lower relative to its 1989 level than in any of the other transition economies shown, real income was relatively higher than in all these economies, except the Czech Republic and Slovakia. Both registered unemployment and real wages were relatively lower than in all the other countries. Although production of meat was estimated to have decreased by 53 per cent in the first half of 1994 and sausage production was estimated to have dropped by 28 per cent compared with 1991 levels, consumption of meat products fell by only 9 per cent.[21]

66. One explanation for these apparent inconsistencies is the rapid expansion in entrepreneurial activities and incomes in the Russian Federation. Another is that official employment ensured workers social benefits and access to housing. Enterprises that were not producing a marketable output still served a function by continuing to exist and keeping people on their books, even when they did not pay them on time, because they still provided social benefits (such as access to health, education, heating and pension entitlements) and used their assets to build housing.

67. Other data confirm the difficulty in drawing conclusions about the increase in poverty in the transition economies and suggest that the situation did not deteriorate to the extent that some headcount estimates would suggest. The share of food expenditures in total expenditures increased in several countries, especially those that had been part of the Soviet Union (see table 6.4), implying a decrease in average living standards as relatively less income is available for table 6.4 non-food consumption. In Central and Eastern Europe, the pattern was different. The share of food in total expenditure rose in Bulgaria and Romania, but fell in Poland after 1990 (while average per capita calorie consumption rose over time).

68. Measurement questions are particularly important when assessing relative poverty in a country in which small changes in per capita income can result in large changes in the number of people living in poverty.[22] If the measure of relative poverty is set as 50 per cent of the initial mean, an egalitarian distribution of income would mean that a drop in income would bring a greater percentage of the population into poverty than would a more unequal distribution. Indeed, a study on a sample of countries found that whereas in developing countries a 10 per cent decline in mean income would increase the percentage of the population with relative poverty of less than 50 per cent of the initial mean by 15.5 per cent, the same decline in the transition economies would cause poverty to rise by 95 per cent.[23]

Table 6.4 Consumption indicators in selected transition economies, 1985-94

Indicator/country	1980	1985	1989	1990	1991	1992	1993	1994
Average daily calorie consumption per capita								
Bulgaria	..	..	3 269	3 289	2 894	2 801	2 682	2 665
Hungary	..	..	3 499	3 386	3 218	3 298	3 126	..
Latvia	2 868	2 747	2 618	2 587	2 496	2 315	2 375	2 293
Moldova	..	..	2 951	2 969	2 842	2 577	2 566	..
Poland	..	..	2 891	..	2 767	2 744	2 667	2 955
Romania	..	..	2 949	3 038	2 832	2 758	2 959	..
Slovakia	..	..	3 234	3 333	3 276	3 126	3 143	..
Russian Federation	2 834	2 739	2 603	2 590	2 527	2 438	2 552	2 427
Ukraine	..	..	3 517	3 597	3 445	3 151	2 860	2 895
Share of food in consumption expenditures								
Belarus	..	..	37.5	33.7	35.7	39.0	49.3	57.2
Bulgaria	..	..	42.5	40.6	52.1	47.4	46.6	48.5
Czech Republic	..	34.9	33.0	31.9	33.3	33.6	32.2	..
Estonia	..	..	..	..	..	31.9	31.9	29.2
Hungary	..	..	37.4	..	37.6	..	38.2	..
Latvia	32.5	32.0	36.0	33.8	42.5	53.7	50.5	51.5
Lithuania	41.4	35.4	35.0	34.1	38.6	60.0	61.9	57.3
Moldova	..	..	40.4	38.3	42.2	50.5	58.6	45.5
Poland	..	..	49.2	51.8	45.8	43.5	44.2	42.8
Romania	..	..	51.6	49.9	52.5	57.5	60.0	62.3
Slovakia	..	..	31.4	30.2	33.5	32.8	32.4	35.3
Russian Federation	42.5	40.8	34.4	36.1	38.5	47.1	46.3	46.8
Ukraine	..	..	39.0	..	43.8	45.6	54.5	64.7

Source: International Child Development Centre, Economies in transition studies. Regional monitoring report No. 3 (Florence, UNICEF, 1995), pp. 136-137, 139.

69. Another feature of a society in which people are clustered around the poverty line is that the relative position of different social groups changes during periods of rapid change. In many transition economies, for example, pensioners' income rose faster than that of workers and farmers, and the position of non-farm workers relative to farmers either improved or remained unchanged.[24]

70. Poverty is becoming an urban phenomenon in the transition economies[25] and its social profile has changed. Before the transition, the poor belonged to the same social groups that constitute the "residual" poor in many societies: the elderly, households headed by women with many children and those at the social margin. Since transition the profile includes young skilled workers, adult

workers and public sector employees.[26] In all countries, the unemployed and farmers are more likely than average to be poor, and larger households tend to be poorer both in per capita terms and in equivalent terms which take into account the smaller consumption of children. Poverty rates of families with five or more members are 1.5 to 2.5 times higher than average. People with lower levels of education are more likely to be poor than people with higher levels of education. Heads of family with no more than elementary education are 20 to 60 per cent more likely than the average to be poor.[27] Moreover, children in the poorest groups are less likely to obtain vocational training after finishing primary school.

71. This change in relative positions has been accompanied by a rapid movement in and out of poverty. In the Russian Federation 63 per cent of those in poverty in 1992 emerged from poverty in 1993, and only 27.5 per cent of the very poor in 1992 remained very poor the following year.[28] In Hungary 23.4 per cent of the population represented in a 1994 poverty panel belonged to the bottom two deciles for certain periods between 1992 and 1994, but only 6.3 per cent remained in poverty throughout the period.[29]

Policy implications

72. The transition economies reveal that different conclusions about the rate of poverty emerge depending on the measure of poverty used. In the Russian Federation, official statistics report that poverty increased from 10 to 12 per cent in 1985 to about 30 per cent in 1993 and 1994 while a World Bank study (table 6.2) estimates that poverty rose from 2 per cent to 45 per cent. These differences are important because assessment of the poverty situation can help to spur government action to alleviate poverty by increasing social protection or changing the direction of policy.

73. Russian researchers have raised doubts about policies to reduce income disparities, arguing that such policies may not lead to reductions in poverty, especially since as many as 90 per cent of the lowest paid workers are not the primary breadwinners, and that the reduction in incentives to new forms of active labour could itself reduce the potential for future employment growth.[30]

74. The experience of central planning before the transition raises questions about what can usefully be concluded from income equality measures and how such measures can, or should, guide policy. Household surveys, which were instituted only in the late 1980s, present a picture of a society that has become less egalitarian and has witnessed a rise in poverty. Because income surveys cannot, of course, measure the costs of creating and maintaining the type of society that existed before transition, the original income distribution cannot be used as the standard against which to measure progress. Larger income differentials are a legitimate part of market reforms based on adequate incentive structures. But adequate public expenditure policies in areas such as health, education and housing based on reformed tax systems and sufficient levels of government revenues need to be targeted at alleviating poverty. At the same time, social safety nets must gradually be implemented to cushion the negative social effects caused by structural change. More equitable realization of the tangible benefits of socio-economic reforms will strengthen support for the transition and help sustain the reforms politically. Identifying the appropriate mix of

economic and social policies to stimulate economic growth and achieve sustainable levels of income equality remains critical to successfully concluding the transition.

75. Understanding the extent and dynamics of poverty is also important for formulating the direction of economic policy. If, for example, policy makers fear that the transition will create semi-permanent "classes" of impoverished people, they may be less willing to proceed with reform. If, however, they believe that during and after transition individuals will quickly move in and out of poverty, they may more readily recognize the need for reforms which lead to sustained growth in a market economy framework and for careful targeting of safety net programmes.

76. One lesson from central planning is that the implicit or explicit choice of a model is vitally important in terms of the effect on poverty. Although the system of central planning was successful in eliminating absolute poverty, opportunities for raising living standards and reducing poverty even further were missed.[31] The institutions of a "civil society" were not allowed to emerge spontaneously under central planning; the Governments in the transition economies were forced to create these institutions at a time of economic difficulty.

3. World growth and global poverty

77. During the past quarter century, real gross world product, which measures the aggregate volume of economic activity produced by all people in all countries, has more than doubled. This long-term rise in the capacity of the world economy to supply goods and services has been accompanied in all main regions by significant changes in patterns of resource use and structures of production and in population dynamics, labour force characteristics and social conditions. Overall, the quality of life for much of the world's population has improved as per capita incomes, life expectancy and levels of education have risen, but the distribution of these gains has been unequal both across and within countries.

Patterns of long-term world economic growth

78. Sharp contrasts in long-term patterns of world economic growth have occurred during the past quarter century as economic progress and social advance have taken place unevenly. While the overall average rate of world economic growth has been relatively rapid, and marked improvements in a wide range of social indicators have been recorded in all areas of the world, the pace of world economic growth has fallen during the past quarter century, and a growing gap in average levels of income has emerged within and between different groups of countries. Analyses of estimates of per capita GDP, measured in purchasing power parities, reveal several important trends.[32]

Patterns of growth across countries

79. The overall pattern of growth by geographic area was described in chapter I, which showed that growth in Latin America and the Caribbean, West

Asia and sub-Saharan Africa was generally slow - and in many countries negative - while growth in South and East Asia, including China, was considerably more rapid.

80. Over the course of a quarter century, differences in growth rates are translated into considerable differences in per capita incomes. Measured in constant terms, incomes per head in 1995 were about 90 per cent higher in the developing countries than they had been in 1970. The figure for the developed countries was about 60 per cent. But there were enormous differences across regions: in West Asia and sub-Saharan Africa per capita incomes had fallen to between 80 and 90 per cent of their 1970 level (although figures for West Asia should be treated with caution because of the effects of oil price charges), in North Africa and Latin America incomes had risen between 25 and 50 per cent over 1970 levels, in South Asia income had risen by more than 60 per cent higher, while in East Asia, including China, 1995 per capita incomes were more than twice the 1970 levels.

81. Growth rates experienced by the high upper middle, lower middle, low-income and least developed groups of developing countries (classified by 1990 per capita GDP) between 1970 and 1995 are shown in table 6.5. The poor performance of the least developed countries in each of the sub-periods (1971-1980, 1981-1990 and 1991-1995) is in marked contrast to that of the low-income developing countries as a whole, in which per capita output accelerated over the period and grew faster than all other income groups.

82. Annual growth of per capita output of about 2 per cent can be considered as normal for the developed countries over the long term. (Such a growth rate raises incomes by about 65 per cent over a 25-year period.) The 2 per cent rate represents a good benchmark against which to assess progress in the developing countries, which should be able to grow even faster as they catch up. Indeed, developing countries making up more than 50 per cent of the world's population grew at an annual rate of more than 2 per cent per capita over the period 1971-1995; among these, developing countries constituting nearly 30 per cent of the world's population grew by more than 3 per cent a year in per capita terms. But developing countries constituting more than a quarter of the world's population failed to grow 2 per cent a year in per capita terms, and in countries representing nearly 10 per cent of the world's population the level of per capita income was lower in 1995 than in 1971 over time. Low-income countries that experienced a decline income represented 5.6 per cent of the world's population.

83. Table 6.6 illustrates these growth differentials over the 1970-1993 period. In 1990 the low-income countries constituted about 70 per cent of the population of the developing countries shown. Four of these countries - China, India, Lesotho and Pakistan - grew by an annual rate of more than 2 per cent per capita over the period. Together with several higher-income developing countries that grew by more than 2 per cent a year, these countries accounted for about two thirds of all people living in developing countries.

Table 6.5 Growth of gross domestic product, population and per capita GDP in developing countries, 1971-95

Country group	1990 share of world population	Average annual rate of increase 1971-1980 GDP	1971-1980 Population	1971-1980 Per capita GDP	1981-1990 GDP	1981-1990 Population	1981-1990 Per capita GDP	1991-1995 GDP	1991-1995 Population	1991-1995 Per capita GDP	Per capita GDP in 1990 international dollars 1970	Per capita GDP in 1990 international dollars 1995	Percent of average for developed market economies 1970	Percent of average for developed market economies 1995
Developing countries	77.2	5.4	2.2	3.1	3.9	2.1	1.7	5.4	1.9	3.5	1446	2743	12.4	14.4
Developing countries classified by level of per capita GDP in 1990														
High income countries	0.4	6.5	3.2	3.2	3.8	2.2	1.6	5.4	1.1	4.2	8659	16994	74.0	89.2
Upper middle-income countries	10.9	5.9	2.4	3.5	1.9	2.1	-0.3	3.3	1.7	1.5	4025	5966	34.4	31.3
Lower middle-income countries	11.9	5.9	2.5	3.4	2.9	2.4	0.5	3.9	2.1	1.8	1841	2987	15.7	15.7
Low income countries	54.0	4.4	2.2	2.2	6.2	2.0	4.1	7.5	1.8	5.5	816	1946	7.0	10.2
Least developed countries	9.3	2.0	2.7	-0.7	2.9	2.6	0.3	3.0	2.7	0.3	1069	1038	9.1	5.4
Developing countries classified by average annual rate of increase in per capita GDP														
Rapid growth of more than 3 per cent	29.1	7.5	1.9	5.5	7.9	1.5	6.3	9.5	1.2	8.2	707	3244	6.0	17.0
Moderate growth of between 2 and 3 per cent	22.3	3.9	2.2	1.6	5.4	2.3	3.0	4.1	2.0	2.0	1210	2094	10.3	11.0
Modest growth of between 1 and 2 per cent	8.7	6.9	2.6	4.3	1.9	2.4	-0.5	3.4	2.2	1.2	2163	3434	18.5	18.0
Slow growth of less than 1 per cent	7.5	6.0	2.8	3.2	1.6	2.7	-1.1	1.8	2.6	-0.7	2243	2636	19.2	13.8
Negative growth	9.6	3.3	2.7	0.6	-1.3	2.7	-4.0	0.7	2.5	-1.9	3448	2263	29.5	11.9
Decline and low income	5.6	0.8	2.7	-1.7	0.3	2.8	-2.6	1.2	2.9	-1.7	1227	733	10.5	3.8

Source. *Department for Economic and Social Information and Policy Analysis.*

Note Estimates of gross domestic product at 1990 international prices and exchange rates are based on replies to the questionnaire on national accounts sent each year by the Statistical Division of the United Nations to national statistical offices. Data on the questionnaires generally conform to concepts and recommendations of the 1968 United Nations System of National Accounts. Where Statistical Division data had gaps in coverage or were subsequently revised, data from United Nations regional commissions, the World Bank, the International Monetary Fund and national publications were used to complete or update the basic set of Statistical Division data. Because concepts, definitions and reported base years of data for individual countries often differ, it was necessary to adjust further the assembled data to eliminate incomparabilities and shift constant price data to a common 1990 base. Country estimates were aggregated into country groups as discussed below. Official exchange rates as reported by the International Monetary Fund were used wherever appropriate to initially translate the national currency data to U.S. dollars. For countries with multiple exchange rates, an effective exchange rate was derived from trade data in national currency and U.S. dollars. In several countries in several years, a free market rate or a United Nations operational rate was used. Constant price data expressed in 1990 U.S. dollars were computed from the constant price national currency data by applying the exchange rate for 1990 to the constant price data for all years. Exchange rate deviation coefficients measuring the extent of distortion from purchasing power parity introduced by using U.S. dollar exchange rates were applied to the individual country series for total GDP in order to obtain estimates in 1990 international dollars. These coefficients were estimated on the basis of the methodology and results of the United Nations International Comparison Project, as extended by R. Summers and A. Heston, "The Penn World Table (Mark 5) An extended set of international comparisons, 1950-1988", Quarterly Journal of Economics Vol 106, No. 2 (May 1991), pp. 327-368, and as further supplemented by the Secretariat. Population estimates and projections are those of the Population Division of the United Nations prepared for the 1994 assessment of world population trends under the medium variant assumption. The classification of countries by major economic region and geographic area generally conforms to that given in the United Nations World Economic and Social Survey, 1996. Data used in this report include additional country detail for developing countries but a smaller sample of countries in the case of economies in transition; in addition, Nigeria and South Africa are included in the total for Sub-Saharan Africa. The classification of developing countries by level of per capita GDP in 1990 and by average annual increase in GDP per capita is given in Table 6.6.

Table 6.6 Growth of per capita GDP in developing economies, by income group, 1971-93

Income level	Growth rate: 2 per cent and more		0 to 2 per cent		Negative	
High and upper middle-income countries	Hong Kong Province of China Singapore Cyprus United Arab Emirates Israel Republic of Korea Malta Thailand Botswana Mauritius Malaysia Seychelles Syrian Arab Republic Turkey		Bahrain Barbados Oman Mexico Suriname Uruguay Fiji Chile Brazil Trinidad & Tobago Costa Rica		Qatar Kuwait Libyan Arab Jamahiriya Saudi Arabia Venezuela Iraq Yugoslavia Argentina	
	GDP 36.6%	14.6%	GDP 13.7%	5.1%	GDP 15.0%	6.5%	GDP 7.9%	3.0%
Lower middle-income countries	Indonesia Yemen Arab Republic * Colombia Tunisia Ecuador Egypt Jordan Morocco Paraguay Sri Lanka Swaziland		Iran Panama Algeria Dominican Republic Congo Honduras Namibia Guatemala Philippines		South Africa Gabon Peru Jamaica Djibouti Côte d'Ivoire Sao Tome and Principe ** Angola ** Bolivia	
	GDP 18.3%	15.4%	GDP 9.9%	8.8%	GDP 5.2%	4.3%	GDP 3.2%	2.3%
Low-income countries	China Pakistan India Lesotho *		Cape Verde ** Niger* Burundi * Burkina Faso * Myanmar ** Bangladesh ** Cameroon Kenya Nigeria Nepal * Mali * Guinea * Malawi *		El Salvador Lebanon Papua New Guinea Nicaragua Senegal Guyana Equatorial Guinea ** Zimbabwe Haiti * Benin * Ghana Sierra Leone * Mauritania ** Mozambique ** Togo **	Zambia ** Rwanda * Gambia ** Guinea-Bissau ** Central African Rep. ** Madagascar ** Ethiopia * Uganda * Comoros ** Somalia * United Rep. of Tanzania * Zaire ** Chad *
	GDP 44.9%	69.8%	GDP 37.9%	53.9%	GDP 4.6%	8.7%	GDP 2.4%	7.2%
			GDP 61.5%	67.8%	GDP 24.8%	19.5%	GDP 13.5%	12.5%

Source: United Nations, Department of Economic and Social Information and Policy Analysis (DESIPA).

Notes: * Least developed country in 1971
** Least developed country in 1993

GDP = share in 1990 income = share in 1990 population

84. More moderate per capita income growth at rates between 0 and 2 per cent was experienced by several low-income countries, many of which were either classified as least developed countries at the beginning of the period or became so during the period. These moderate growth low-income countries made up almost 9 per cent of the population of the developing countries in 1990. Other developing countries that together constituted about 11 per cent of the population in developing countries experienced moderate growth over the period.

85. The countries that saw a decline in their per capita incomes over the period constituted about 12.5 per cent of the total population of developing countries in 1990; of these, low-income countries represented more than 7 per cent. The groups included some oil-exporting countries, which still had high incomes in 1990, several Latin American and Caribbean countries, which were in all income categories, and many African countries. The majority of the African countries that experienced negative growth were low-income countries in 1990, and many of them were either least developed countries in 1971 or became so by 1993. A particularly disturbing fact is that only a few African countries were able to achieve a rate of growth of more than 2 per cent.

86. The effect of negative growth on such indirect measures of progress against poverty as the infant mortality rate (IMR), life expectancy and the primary school enrolment rate is shown in table 6.7. Illustrative of this effect is the fact that the IMR in sub-Saharan Africa, which was lower than the IMR in South Asia in 1970-1975, exceeded the South Asian rate by 1990-1995. Life expectancy and school enrolment rates had also increased faster in South Asia.

87. Another striking comparison is between countries in which per capita GDP declined between 1970 and 1995 and the other groups of countries. Countries that saw a decline in per capita output had an average IMR of 118.4 per 1,000 live births at the beginning of the 25-year period, a lower rate than in countries that subsequently saw a moderate increase in output. By 1990-1995 the IMR of the countries in which per capita output had shrunk was 87.9, higher than that of any other group. Similarly, life expectancy in the countries in which per capita output declined over the 25-year period improved by much less - 5.5 years - than in any other group. Finally, gross primary school enrolment rates in the fast-growing countries rose from an average of 88 per cent in 1970 to 115 per cent in the latest year available; in the other countries with positive growth the figure rose from about 70 per cent to 95 per cent. In contrast, in countries with negative growth gross primary school enrolment rose from 60 per cent in 1970 to a temporary peak of 79 per cent in 1980, but then fell back to just to 71 per cent in the 1990s.

88. Social indicators for the least developed of the developing countries remained weak over the period. Per capita income alone fails to describe fully the life of the average citizen in these countries, where infant mortality is higher, life expectancy lower and health status poorer than elsewhere, and citizens are not receiving the education required to enable them to improve their living standards.

Table 6.7 Infant mortality, life expectancy and school enrolment by major economic region, 1970-95

Country group	Infant mortality rate (per 1000 live births)			Life expectancy (years)			Gross primary school enrolment ratio (per cent)			
	1970-75	1980-85	1990-95	1970-75	1980-85	1990-95	1970	1980	1990	Latest year
Developed market economies	18.0	10.4	7.4	72.1	74.9	76.8	103.6	102.2	103.3	104.4
Economies in transition	35.6	25.3	20.1	69.2	69.9	70.2	103.8	104.3	108.4	106.6
Developing countries	114.3	94.2	74.9	52.9	58.8	61.2	78.8	100.8	104.2	101.3
Latin America and Caribbean	81.7	59.7	45.7	60.7	64.8	68.2	93.2	106.2	107.2	108.4
North Africa	136.4	102.1	63.7	53.1	58.2	64.5	70.5	82.5	91.0	94.6
Sub-Saharan Africa	129.5	114.2	97.2	44.7	47.8	50.8	46.1	82.3	69.3	69.1
West Asia	112.6	76.4	47.5	55.3	60.5	65.8	70.7	89.9	103.5	97.7
South Asia	133.8	110.5	86.2	49.6	54.5	59.8	66.6	75.9	90.1	93.1
East Asia and Pacific	68.2	56.9	44.5	60.8	64.6	67.6	88.8	105.7	109.6	108.0
China	71.0	52.0	47.0	61.4	66.0	67.8	89.0	113.0	125.5	118.0
Mediterranean	116.5	86.7	57.1	60.4	64.0	67.5	109.1	97.0	106.4	101.0
High income developing countries	26.5	16.9	11.3	70.0	73.0	75.8	101.7	100.9	96.3	95.7
Upper middle income developing countries	78.3	57.6	42.1	61.0	65.2	68.7	91.3	102.7	106.0	103.9
Lower middle income developing countries	110.7	83.9	57.4	53.0	58.4	63.6	83.6	101.1	105.8	105.8
Low income developing countries	107.2	94.9	78.2	53.5	56.3	59.6	69.5	89.2	97.2	96.2
Least developed countries	144.4	128.5	108.6	39.9	47.3	51.1	n.a.	n.a.	n.a.	n.a
Rapid increase in per capita GDP	69.2	57.9	46.0	60.8	64.5	67.4	87.9	110.8	121.2	115.3
Moderate increase in per capita GDP	131.8	105.4	79.7	51.2	56.3	61.4	72.5	79.6	92.6	95.6
Modest increase in per capita GDP	114.6	93.8	71.3	53.1	57.3	62.2	71.5	84.7	96.6	97.0
Slow increase in per capita GDP	104.4	86.4	70.8	51.5	55.0	58.2	67.8	104.6	95.2	96.7
Decline in per capita GDP	118.4	103.4	87.9	49.0	51.9	54.5	60.4	79.4	73.3	70.8

Source: ***Department for Economic and Social Information and Policy Analysis.***

Notes: Estimates of infant mortality and life expectancy are those of the Population Division of the United Nations Secretariat, as calculated in accordance with the countr coverage and classifications given in Table 6.6. Infant mortality refers to the mortality of live-born children who have not yet reached their first birthday, and is computed as the ratio of deaths of children under 1 year of age per 1000 live births during the period indicated. Life expectancy refers to average life expectancy of men and women at birth during the period indicated. Estimates of gross primary school enrolment ratios were calculated by the Department for Economic and Social Information and Policy Analysis on the basis of estimates reported by the United Nations Educational, Scientific and Cultural Organization for a sample of individual countries corresponding to the country coverage and classifications given in Table 6.6. Gross primary school enrolment ratio is the total enrolment, regardless of age, divided by the population of the age group of the level considered.

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Impact of economic growth on poverty

89. Growth in GDP is related to social development, especially the reduction of absolute poverty, in a variety of ways:

1. Economic development exhibits diverse patterns in the pace of growth and the level of income. This affects opportunities for social development, including the possibility of reducing absolute poverty.

2. Economic growth is a necessary but not sufficient condition for reducing absolute poverty in low-income countries. Economic growth strategies must include social and redistributive policies that address the needs of the poor.

3. The marked slowing of the pace of economic growth after 1980, especially in middle- and many low-income developing countries, has limited the scope for poverty reduction. In many cases, slower growth has been exacerbated by growing income inequalities within countries, which have increased the incidence of absolute poverty.

4. The absolute decline in per capita incomes for more than half of all low-income developing countries from 1970 to 1995 increased disparities in income levels and increased the level of poverty within those countries.

5. Negative per capita growth was experienced in the least developed countries, and the number of such countries increased over time. Only one country - Botswana - graduated from this group. This trend has increased the incidence of extreme and absolute poverty within the least developed countries.

6. Although growth is essential for reducing poverty, it is not the only determinant of the incidence of absolute poverty. Equally important are policies for equitable growth, which improve the domestic distribution of the benefits of growth, reduce inequalities and benefit the poor.

7. In order for social policies to improve the quality of life for all citizens and eliminate absolute poverty, they must be based on sound economic policies, which can provide the financial basis for implementing those policies.

C. Policies for poverty reduction

90. Despite setbacks and ongoing difficulties, the global economic expansion of recent decades has brought great economic and social progress to many areas of the world and unprecedented prosperity to a large proportion of mankind. Mass poverty has been eliminated in the more economically advanced countries and significantly reduced if not eradicated in many developing countries. Infant mortality has fallen almost steadily in all regions and life expectancy has risen all over the globe. Educational attainment is rising, health care and living conditions are improving in most countries and the quantity, quality and range of goods and services available to a large majority of the world's

population is increasing. Technology and continued economic growth promise further advances to those individuals with the knowledge, skills, capital and experience to benefit from the demands for change and adaptation that economic development requires.

91. But not everyone has shared in this prosperity. Economic growth has been slow or non-existent in many of the world's poorest countries, and the World Bank estimates that about a quarter of the world's population live in dire poverty. The plight of the poor stands in stark contrast to the rising standards of living enjoyed by those favoured by growing abundance. This contrast - and what would appear to be a widening gap between the rich and the poor both across and within countries - has generated an explicit international commitment to eradicate poverty by a target date to be set by each country.[33] Ensuring that heretofore excluded segments of the population share in the benefits of economic expansion and social development is also seen as a key objective of domestic policy, and special attention has been focused on people living in absolute poverty and people permanently disadvantaged by discrimination or made vulnerable by age, disability or infirmity.[34]

92. Any national strategy for reducing and eventually eradicating absolute poverty must set in motion a process of modernization rooted in both the long-term growth of labour productivity and the enhancement of each individual's potential to contribute to society. Increasing output and earnings per worker requires a better educated and more adaptable labour force, the provision of more and better capital per worker, improved technology and more capable management, all of which require investment in human and physical capital. Eradication of poverty also depends on creating an environment in which individuals can develop and use their initiative and creativity to advance the economic, social and cultural development of the community. In support of efforts at the national level, the international community must grant high priority to integrating the world's poorest countries more fully into the global trading system and building human and institutional capacities in these countries.

93. The processes of productivity advance and social development are not costless. Economic growth and higher productivity bring great rewards but also the disruptions and setbacks associated with rapid and uneven development. Some industries, some occupations and some regions undergo a dramatic expansion and pull a large segment of the population out of poverty, while others decline and leave large numbers of people even poorer than they were before. New firms, new lines of production and new occupations spring up as a result of economic development but established firms and older industries often weaken in their wake. In the process, prevailing cultures and mores are challenged and social advance in one area often stands in contrast to a decline in traditional values widely regarded as important for social cohesion and good governance.

94. This section examines several issues entailed in designing a poverty reduction strategy that can promote the ultimate goal of eliminating absolute poverty while contributing to the broader objectives of economic and social development. It sets forth the following six dimensions of a national strategy for addressing the problem of absolute poverty, and identifies the following key objectives that must be the focus of policy:

1. Promoting high and sustained rates of economic expansion and employment creation through policies designed to create an enabling environment for poverty reduction.

2. Increasing incomes and participation in the economy by the unemployed and working poor through targeted measures to improve their skills and training and upgrade their health status and living conditions.

3. Expanding opportunities for the poor to engage in gainful economic activity by widening their access to land, credit and other productive factors.

4. Targeting those localities and intervening in those areas where the poor reside and where needs are greatest in terms of priorities for poverty reduction.

5. Addressing the pressing economic and social problems of the aged, the disabled, the infirm and those otherwise unable to engage in productive economic activity through programmes of public assistance and income maintenance.

6. Channeling the benefits from increased participation in the world economy towards the poorest segments of the population through policies promoting an expansion of labour intensive exports and a reduction of trade restrictions on consumer goods.

95. While these dimensions are all essential in a successful programme for poverty reduction, they must contribute in a way that promotes both higher incomes and improvements in the health, education and nutrition of the poor. In turn, programmes in support of primary health care, family planning, nutrition and primary education must both raise the quality of life of the poor directly and equip them to take advantage of and contribute to the opportunities presented by a growing economy. A coordinated set of public policies and government programmes directed at both raising rates of economic growth and providing basic social services to the poor may have a greater effect on poverty reduction than policies or programmes directed at a single objective.

96. Equally important, however, is adapting antipoverty programmes and policies to the needs and circumstances of a particular country. Strategic components must be tailored to country-specific conditions, and they must focus on a wide range of clearly defined objectives that have poverty reduction as their primary goal. Public sector interventions need to take into account cultural values as well as financial and institutional constraints. Doing so demand a strategy that is broad, internally consistent, and feasible to implement. In the poor countries of sub-Saharan Africa and South Asia, where poverty is pervasive, any national strategy must be so broad enough to encompass the range of the country's economic and social policies, from its macroeconomic policy stance through its institution-building efforts to its implementation of individual projects and programmes. In the very poorest countries, all policies - those that affect the national economy, those that affect the local economy, those that focus on the internal economy and those that focus on the external sector - must be adapted to the overriding goal of reducing poverty.

97. This section reviews recent studies of poverty reduction programmes and assesses the contribution that different kinds of policies can make to poverty reduction. Studies on clarifying the various characteristics of absolute poverty are also examined briefly in order to help define its nature and target its manifestations. The aim here is to provide an overview of some of the important issues involved in designing a national strategy for reducing absolute poverty and to identify the implications of recent studies for anti-poverty strategies and programmes.

1. Promoting high rates of economic expansion and employment creation

98. There is a growing awareness of the importance of creating an enabling environment for development which facilitates economic growth and human development by providing a supportive macroeconomic and institutional framework for stability and which encourages enterprise and productivity increases by individuals, especially those at the bottom of the income distribution. Creating an enabling environment goes beyond maintaining political stability and adopting sound macroeconomic policies and encompasses the adoption of legal frameworks and policy guidelines which reflect a commitment to broad-based economic growth and the participation by all in widening prosperity.

The poor and economic growth

99. Broad-based economic growth is critically important to the poor because they are directly affected by its pace, its stability and its distribution over sectors of the economy and over segments of the population. Sustained high rates of growth can contribute to a decline in poverty as an expanding economy creates new employment opportunities and new sources of income associated with a greater production of goods and services. Rising aggregate demand, in turn, stimulates greater use of existing manpower, plant and equipment, and natural resources. Tighter labour markets raise the wages of the poor who are employed, provide better employment opportunities for those with part-time or very low-paying jobs and create more jobs for the unemployed. As employment expands among the skilled and the highly trained, low skilled and poorly qualified workers (many from the poorest segments of the population) are trained and find their productivity and wages rising. In a growing economy, all segments of the population should also benefit from the lower level of real prices for products which is associated with the expansion of the aggregate supply of goods and services that accompanies economic growth.

100. When the distribution of growth favours the poor it can have a significant impact on the living conditions of the poorest segments of the population. For households that are now poor, higher incomes from faster growth means access to more of those types of goods and services regarded as necessities by the non-poor but not affordable by the absolute poor, for example, adequate and varied diets, basic health care, satisfactory housing, and a good education for children. As the incomes of the poor rise above the poverty line, spending shifts towards consumer durable goods previously unavailable to them, such as improved medical care leading to longer life expectancy, better housing and improved living conditions, and, eventually, recreation and other leisure

activities. Higher incomes also allow the poor to invest in their agricultural holdings and in small-scale commercial activities. Improved nutrition, housing, health care and educational opportunities; less time devoted to household subsistence activities and more time available for leisure; and greater investment in their productive activities not only improve the well-being of the poor but raise the quality of the labour force and the time available for remunerative activities outside the home, increasing the level of productivity in the economy.

Growth and poverty reduction

101. Studies by international agencies confirm that overall growth is indeed linked to a reduction in poverty and that sustainable economic growth generally benefits all layers of society roughly in proportion to their initial levels of living.[35] Recent estimates of the elasticity of the poverty gap index to overall growth calculated from separate studies indicate that a 2 per cent annual rate of growth in per capita consumption at all consumption levels will result in a 3 to 8 per cent annual decline in the poverty gap index. Other measures of poverty show a similar relationship, although estimates for reductions in the headcount ratio tend to be slightly lower in absolute value while estimates for the severity of poverty among the poor tend to be higher, suggesting that the benefits of growth are felt well below the poverty line.[36] Another study found that across several countries the elasticity of the incidence of poverty is about -2, indicating that each percentage point increase in average consumption is associated with a reduction of 2 percentage points in the proportion of the population living below the poverty line.[37] However, as the World Bank has noted, the strength of the relationship between overall growth and poverty reduction weakened in the 1980s, mainly because of fluctuations in income inequality. Hence, the pattern of growth among different income groups remains an important factor in determining the benefits the poor receive from higher economic growth.

102. In a review of trends in economic growth and poverty over past decades, Demery, Sen and Vishwanath conclude that, whatever its effects on inequality, over the longer-term economic growth generally reduces poverty.[38] They also note that the pattern of growth matters, and that income inequality is an important element in the growth-poverty relationship. The challenge to policy is to make economic growth broad based; an emphasis on labour-intensive growth and more investment in human capital is required to generate sustained long-term growth. The paper notes that increasing external economic instability of the 1980s adversely affected the poor, but that the recovery in output arising from better-designed adjustment policies reduced poverty, especially in Latin America in the late 1980s and early 1990s. In Africa, where implementation of reform was mixed, there is evidence that the poorest segments of the population, particularly in rural areas, have been largely unaffected by the recent recovery. The authors conclude basic investment in infrastructure and human capital appear necessary to improve living standards among the poorest groups in Africa.

103. Several other studies also substantiate the strong link between economic growth and poverty reduction.[39] Drawing on data from the early 1980s to the mid-1990s, these analyzes show that positive growth is associated with a falling

incidence of poverty, and economic contraction is associated with a rising incidence of poverty. Another set of studies has also found a clear association between growth and poverty, an association which holds for all regions and appears to hold during both short-run periods of economic recovery and longer-term periods of growth.[40] One of these studies indicates that the impact of growth on reducing poverty appears to be greater among the poorest segment of the population than for the moderately poor.[41]

104. Although the nature of poverty and the economic conditions and problems facing each country differ widely, some general lessons about economic growth and poverty reduction can be drawn from these studies. For example, political stability has been found to be critical in achieving sustainable equitable growth leading to poverty reduction, and government policies that improve the allocative efficiency of resource use (by reducing distortions in relative prices, exchange rates and trade patterns) can be a key factor in raising the incomes of the poor. Economic stability, macroeconomic balance and growth based on a country's abundant factor of production (usually labour) are also essential in providing a foundation for sustainable long-term economic growth, suggesting the importance of agriculture and openness to international trade, with an emphasis on export expansion. Social development, especially education, has also been a critical component of equitable growth; without allocating significant resources to education there can be little prospect of long-term growth or poverty reduction.

Growth and social development

105. The degree of improvement in particular indicators of social development that can be expected from higher levels of output varies considerably across countries. One study showed that the average level of per capita output accounted for only a small part of differences in the number of people living in dire poverty. In that study, two sets of percentages of heads of households, one with an average private consumption of less than I$21 a month and another with an average of I$30 a month (in 1985 prices), were related separately to average gross national product per head and to total private consumption, respectively. The resulting regression relationships for GNP could explain only the 15 to 25 per cent of the variance of the percentage of people in poverty - implying that overall macroeconomic output was a significant factor in determining the volume of goods and services consumed by the poor households but that other factors had a greater effect. The corresponding relationships between the national average for private consumption per capita explain the 40 to 50 per cent of the percentage of people in poverty (at I$21 and I$30 per month, respectively).[42] Similarly, the level of GNP per head (together with the percentage of people with private consumption below I$21 and I$30 a month) could explain only 48 and 38 per cent of the variance among countries in the infant mortality rate and the literacy rate, respectively.[43]

106. These results imply several broad conclusions. First, attaining favourable levels of illiteracy and infant mortality is harder for countries with a lower level of GNP per person and a given incidence of poverty, and for countries with a higher incidence of poverty, given the level of GNP per person. Second, because the variance among observations of per capita consumption per person and average GNP is associated with no more than half of the variance in infant

mortality and literacy rates, policy intervention has a wide scope to increase literacy and survival prospects, even at low levels of per capita income. Raising income levels through faster economic growth, supported by appropriate social development policies, can contribute to eliminating the manifestations of poverty.

Governance and poverty reduction

107. Good governance is essential and efficiency and equity must be at the centre of policy concerns if growth is to take place as rapidly as feasible and provide maximum benefit to the poor. Good governance is associated with the rule of law, equity, participation by all in civil society, and the provision of basic services. At the national level, promoting efficiency involves an array of policies to create and maintain a stable environment for modernizing enterprise, boosting investment, correcting factor-price and other distortions in the economy to ensure accurate signals and incentives to producers and consumers, stimulating competition to promote greater productive efficiency, and ensuring that all of society's resources are fully and effectively utilized. At the community level, implementation of poverty programmes may best rely on local self-governing institutions and local involvement to raise the productivity and material conditions of the poor. Programmes administered by a distant, uncoordinated central bureaucracy may be insensitive and unaccountable to the poor, with too much spent on middlemen, contractors, officials and politicians. Devolution of decision-making to the local community can centre responsibility in those most affected by the decisions being made and improve information about the best way to implement public services. Peer monitoring and enforcement of local social sanctions also improve accountability and provide incentives for maintaining the quality and cost effectiveness of poverty programmes.

2. Investing in human capital

108. The central goal of development is the strengthening of human resources: improving the education, health and productivity of the work force and breaking down barriers which prevent men and women from fully developing their abilities and training. The economic and social benefits of a literate population support economic growth through its effects on productivity and enhances the well-being of the community through an informed and tolerant population. The cost to society of preventable illness and premature death cannot be measured in economic terms alone - although the economic cost alone is high - but is also seen in terms of suffering, pain and grief. Similarly, when all groups do not share equally in the opportunities that life affords, not only to those subject to discrimination - usually the poorest segments of society - bear the costs in terms of higher unemployment and lower incomes but the entire society is diminished by lost human potential and antagonisms created by unequal opportunity. Neither economic growth nor poverty reduction can take place without individuals learning more, experiencing improved health and interacting on the basis of equality. For this reason, policies directed at strengthening human resources are a key to both economic growth and poverty reduction.

Investing in people

109. Efforts to strengthen the human resources of the poor must recognize that, unlike the non-poor, the absolute poor are trapped in a situation in which economic growth and social development are interdependent. The strong interrelationship between economic growth and social development highlights the vicious circle wherein low growth spawns low growth and poverty breeds poverty. By definition, the absolute poor are those who subsist on very low incomes. Low incomes carry with them a limited capacity to save and invest, limited means for obtaining health services and hence a high risk of personal illness, limitations on job and locational mobility; and limited access to education, information, and training. Poor parents cannot provide their children the opportunities for better health and education needed to improve their lot. Lack of motivation, hope and incentives creates a barrier to growth that is just as real as a lack of financial means. Because the poor lack the social characteristics necessary to emerge from poverty, the legacy of poverty is often passed from one generation to the next. To rise out of poverty, the poor not only need the enhanced opportunities brought about by faster economic growth but also an enhanced capacity to respond to the opportunities created by a growing economy. This requires a wide range of policies and a concerted effort sustained over many years.

110. Poverty reduction policies for able-bodied young and working age individuals must focus on raising their productivity through investments in human and physical capital leading to higher levels of output and income. The connection between education and earning capacity is well documented, and programmes directed at strengthening educational opportunities for the poor are therefore essential to raising the incomes of those mired in poverty. These programmes should have three principal objectives: preparing the unskilled for better jobs, augmenting the supply of scarce skills and upgrading the training of the poor, and improving the functioning of labour markets. Similarly, the striking discrepancies between the health status of the poor and the non-poor, apart from its inherent inequity, point to the need to improve the health attributes of the young and working poor so as to increase their capacity to engage in productive activity.

111. Investment in human capital must be complemented by investment in complementary physical capital. Inferior facilities and poorly qualified teachers and health workers, for example, may lower the value of education and the benefits from health care. For the full benefits of better education and health care to be reaped by the poor, a major effort may be necessary to upgrade schools and clinics in terms of their physical plant and their staff; similarly, programmes to improve education and health care may have to be supported by a range of community services such as improvements to sanitation facilities, roads and the private housing stock.

112. Knowledge about the circumstances in which the poor live, their demographic characteristics and social attributes, and where they reside is essential if a sound poverty reduction policy is to be formulated. Information about the absolute poor, however, is spotty. If programmes and policies for attacking poverty are to be tailored to the needs of different segments of the poor population, more needs to be known about their numbers and characteristics. For

this reason, a main focus of the literature on poverty has been on identifying characteristics of the poor which distinguish them from the non-poor and affect the design of programmes for social development targeted to the specific needs of different groups in poverty.

Human resource profiles of the poor and poverty reduction[44]

113. In terms of their demographic profile, the poor reflect social characteristics different from the non-poor which diminish their opportunities for development. The poor tend to part of larger households and have more children than the non-poor, with the result that children appear to be more likely than adults to be poor. Households with low per capita consumption or income are typically younger and their members are more likely to die prematurely. In developing countries, infant and child mortality increase steeply with poverty. High infant and child mortality in the poor population leads to early marriage and a high number of births to achieve a completed family size. High fertility is also encouraged by the need for support from children in old age and by the need for supplementary labour in the household and on the farm. These factors tend to lower average per capita incomes, hinder the accumulation of physical and human capital and lead to fragmented agricultural plots and scarcer land resources relative to the non-poor population. Any poverty reduction strategy must address these population issues.

114. In terms of a profile by gender, several recent studies suggest that women do not appear to be over-represented in consumption-poor households nor do they find that female-headed households are more likely to be poor. One reason may be the pervasive nature of mass poverty in some developing countries, which simply engulfs a large proportion of the total population. On the other hand, a major study of the International Fund for Agricultural Development (IFAD) found that women were overrepresented among the rural poor in 114 developing countries.[45] Based on the IFAD data, a ILO calculated that the number of rural women living below their country's poverty line was much larger, and rose more quickly, than the number of men, suggesting that there has been a relative rise of poor households headed by women.[46] Because national statistics rarely provide an enumeration of men or women living in poverty, the question of the feminization of poverty in developing countries is one that requires further study.

115. Even if women are not overrepresented among the poor, poverty nonetheless affects women disproportionately because of their dual role as both domestic and market labour. Poor women in developing countries carry the burden of work both inside and outside the household, preparing meals and taking care of children with the home; gathering firewood, carrying water and planting, tending and harvesting crops and animals in the family plot; and working outside the home, often for long hours at marginal wages as the sole means of survival for their families. Except among the very poor, there is evidence that as poverty deepens, female age-specific labour force participation rates increase sharply as income falls while the child/adult woman ratio rises. In the market, poor women are often relegated to work in the agricultural or informal sectors, where labour is hard, hours are long and wages are low. With their domestic responsibilities, poor women face less chance of escaping poverty as their

commitments to their families lower their mobility. Older sisters often must care for their younger siblings rather than attend school, perpetuating a cycle of low education and low-paid jobs for women from one generation to the next. Cultural discrimination in education, job assignments and property rights also often prevent them from seizing opportunities available to men.[47] Finally, in some cultures, widows (and women in general) face discrimination in employment and at home, leading to a higher risk of poverty.[48] If policies aimed at eliminating absolute poverty are to be successful, special efforts must be made to improve education, employment opportunities and the status of women.

116. In terms of their human capital profile, the poor lack the investments made and available to the non-poor. Human capital encompasses education, work experience, physical fitness and stamina, and other characteristics which make people productive and self-reliant. The relationship between human capital and poverty is a complex one, whereby a lack of human capital takes a variety of forms - illiteracy, lack of income-augmenting skills, and malnutrition and morbidity affecting physical stamina - which lower the ability to invest in human capital. Moreover, the production of human capital takes time, both in terms of the time necessary to put in place required infrastructure and inputs and in terms of the time necessary to gain a basic education and learn new skills.

117. In the case of the absolute poor, given their heavy dependence on unskilled labour, the contribution that improved skills and knowledge can make to growth and poverty reduction can be very high since training and education yield benefits not only to the person receiving it but also society at large. For the individual, education produces tangible rewards from increased productivity and a higher paying job and intangible rewards from being able to live a fuller life in every sense. Some of these benefits are consumption in nature and contribute immediately to an improvement in living conditions while others are "investment in human capital" and like investment in machinery and equipment yield compounding benefits over a period of years. For society as a whole, education provides the basis for more informed and effective citizenry and is the most important force behind economic growth. Formal education also tends to acculturate different groups in society, encourage attitudes of cooperation and participation, and equalize opportunities within a society.

118. The contribution of education to the increase in labour productivity and poverty reduction has long been recognized and documented.[49] Recent research supports the conclusion that education can make a significant contribution to the reduction of absolute poverty in developing countries. According to one study, literate farmers with at least a primary education are more productive and more responsive to new agricultural technology than illiterate farmers, and educations improves their prospects for escaping poverty.[50] Craftsmen and mechanics who can read and write are believed to be better able to keep up-to-date with changing technology in their fields. In other studies based on cross-section evidence from both household surveys and international data sets, strong links between health and education in a region or country and its subsequent growth and poverty reduction have been noted, especially where primary education has been extended to women and is completed.[51] Intracountry comparisons between individuals who receive education with individuals who did not also confirm that poverty reduction through education is cost effective.

Some of these data sets also suggest diminishing returns, however. Moreover, the benefits from primary education undertaken for only a few years appear to be small. Increasing the proportion of education resources allocated to basic and primary education and to the poorest groups or regions in a country reduces poverty, according to these studies, but complementarities across different levels of education must also be considered. The capacity of the poor to benefit also depends on nearby opportunities to use acquired capacities.[52] The strong correlation between educational attainment and poverty reduction supports the conclusion that strategies for poverty reduction must focus on reducing widespread illiteracy, especially among women, and improving the quality and orientation of educational opportunities, especially as they relate to the needs of the labour market.

119. In terms of their health profile, people in poverty carry a greater burden of disease and illness but because health systems are skewed towards large urban health systems are rarely accessible to the absolute poor, most of whom reside in rural areas. Malnutrition, particularly of children, and problems of food security are also linked to poverty. Lack of adequate health services and deficits in food-energy and protein reduce the productivity of the poor and impair the ability to learn of impoverished children.

120. Finally, it must be noted that when improving the health profile of the poor greater food security is essential for breaking the vicious circle of poverty and malnutrition. In rural areas, this requires measures to promote subsistence farming and to raise the returns farmers receive on marketed crops by creating a policy environment that promotes increased food production through secure land tenure arrangements and appropriate pricing and incentive policies. It would also provide better infrastructure, especially feeder roads and small-scale irrigation, improved access to credit and inputs, research and extension services and agricultural marketing. In the majority of developing countries, where women constitute more than 80 per cent of food producers, measures to enhance household food security must address institutional discrimination against women in their attempts to gain access to land, credit, education and technology.

121. With regard to social services in general, some studies suggest that the incidence of benefits from public spending on rudimentary social services such as primary education and basic health care is usually somewhat pro-poor, possibly because the non-poor often turn to the private market for primary education and health care and because the poor tend to have larger families and more dependants. The distribution of benefits from higher education and tertiary medical care in hospitals is much more regressive. Similarly, the practice in many countries of charging low prices for social services regardless of cost may result in the non-poor being subsidized more than the poor. In these cases, selective user fees for basic health services, with exemptions for the very poor, can promote both efficiency and equity.

122. The literature on poverty suggests that social sector expansion must be accompanied by a recognition that social development for the poor can occur only if priorities are shifted and the organization and financing of social services changes to include wider coverage for the poorest segments of the population. Developing the necessary physical infrastructure - roads, schools, sanitation

facilities and primary health clinics - in support of a reorientation of social investments must also be seen as a high priority, especially through targeted programmes of public and private investment in those areas (rural districts and urban pockets) and for those groups (usually minorities and the disadvantaged) most vulnerable to poverty.

3. Targeting poverty where it is concentrated

123. Because general policy measures may fail to provide the targeted assistance required to deal with the needs of the poor, additional measures are needed to alleviate malnutrition and other immediate needs and to improve the capacity of the poor to lift themselves out of poverty. Targeting poverty where it is concentrated requires knowing where the poor reside and designing policies appropriate to the environment in which they live.

Intracountry distribution of the poor[53]

124. Information about the distribution of the poor between the countryside and the cities of developing countries - and hence the priority to be given to rural and urban areas when designing programmes for poverty reduction - is very limited. The available data show that, although less visible than in urban areas, the poor are disproportionately found in rural areas where they are engaged primarily in agricultural and associated activities. The concentration of the poor in rural areas reflects both the high rural share in the total population of most developing countries and what would appear to be the higher incidence of poverty in rural areas.

125. Comparisons of rural and urban poverty rates are difficult to make for several reasons. While settlement patterns in developing countries tend to concentrate the majority of the population into clearly urban or rural places, the terms urban and rural are not used consistently across studies or across countries. Another problem when comparing poverty between urban and rural areas arises because of spatial cost-of-living differences that result in urban poverty lines being set at a higher real level than rural poverty lines. Notwithstanding these measurement problems, data on consumption or income per person which allow for rural-urban price differences for several countries in the 1980s show a wide range of rural-urban poverty ratios, all of which exceed 1.0. This strongly suggests that the incidence of poverty is considerably higher in rural areas.[54] Consistent with the higher incidence of poverty in the countryside, the incidence of poverty was found to be lower in large cities than in other urban areas in some countries (Indonesia, Tunisia and Côte d'Ivoire).

126. The high incidence of poverty in rural areas creates several problems. Because average incomes are very low, rural communities have difficulty investing in schools and other public facilities, and low incomes and poor facilities cause out-migration to the cities, often by the most enterprising and productive individuals, leaving behind the less employable, the less skilled and educated, and the oldest and youngest segments of the population. In addition to the rural/urban dichotomy, sharp regional disparities in poverty incidence ratios have also been noted. For example, in Indonesia in 1990 the rural-urban

poverty incidence ratio was estimated to be 2.2, while the ratio of the highest poverty incidence in rural areas of any province to the lowest was estimated at 4.3. Regional variations in the incidence of rural poverty are often strongly associated with rainfall and dependence on rainfed agriculture. The persistence of these differences in poverty incidence indicates that regional factor mobility has plainly not equalized the risk of being poor.

127. Poverty in the countryside is marked by its common connection to agriculture and land, whereas urban poverty is more heterogeneous in how people are employed and incomes are generated. Poverty in the rural sector also tends to be explained more by poor access to physical assets (particularly land), outdated farm technology, the lack of non-farm employment opportunities, and inadequate schooling and health care rather than by the kinds of labour market distortions that characterize the urban sector. A comparative study of seven Asian developing countries in the late 1980s showed that the rural poor depended more on agriculture than the rural non-poor. A similar relationship has also been observed in West Africa. Relative to the non-poor, a smaller proportion of the rural poor are engaged in such non-agricultural activities as petty services, local trading and various forms of low-paid, small-scale commerce. Their prosperity is nonetheless linked to agriculture because it depends on forward and backward production and consumption linkages with farmers.

Urban policy[55]

128. Developing countries have experienced a rapid growth of cities and an unprecedented movement of people from the rural countryside to urban areas. With the rapid spread of urbanization has come a tremendous growth of slums and shantytowns where the urban poor reside. As in the countryside, most of these new settlements are without clean water, sewerage systems or electricity. Even in more established urban areas, the poor live amidst in deteriorating facilities and inadequate social services and high unemployment create a dehumanizing and hostile environment. Despite the poor urban living conditions, large-scale migration from rural to urban areas continues.

129. Considerable success has been achieved in helping the urban poor, especially through improvements to housing, sanitation and utility services. The policy approach to housing problems in developing countries has gone through three phases. In the first phase (1950-1975) policy makers sought to solve the urban poverty problem by clearing slums, introducing zoning and restrictions on migration and constructing low cost housing. As a result, some poor were expelled from urban areas and others were exposed to arbitrary harassment by settled townspeople and local authorities while civil servants and local authorities were subsidized. Scholars, activists and others helped terminate, or at least modify, these anti-poor policies, many of which had proved ineffective.

130. In the second phase (mid-1970s to late 1980s) policy makers recognized the poor as a lasting urban presence and sought to enlist their participation in "people-oriented" development projects, such as developing their housing areas. These efforts, including site and service projects and slum upgrading, reached the poorest segments of the population (albeit seldom the lowest categories of income recipients). Some restrictions placed on these projects were later

abandoned as counter-productive. For example, in the early site-and-service upgrading schemes, beneficiaries of materials and loans were forbidden (albeit not very effectively) from hiring labour or renting out their improved dwellings. The effect of such restrictions was to prevent renters or hired workers from sharing the benefits of the upgrading schemes with the dwellers, even though excluded tenants or workers were usually poorer than the dwellers themselves.[56]

131. In the third phase, which began in the early 1990s, emphasis has been placed on improving the provision of services to these upgraded areas - and to a lesser extent to the much poorer unregistered slums - mainly though better financial management and cost recovery. Effort has been made to secure and clarify the property rights of the urban poor. Throughout this three-phase learning process, urban housing policy has generated substantial benefits per unit of cost for the urban poor, although probably not for the very poorest.

132. Most of the urban poor work in the informal sector, traditionally viewed as characterized by easy entry, little unionization, no legal minimum wage, weak safety standards, low physical capital inputs, low returns to labour and mainly small, often family-based enterprise units typically producing non-traded goods consumed mainly by the poor. This view of the informal sector has changed recently in the light of new data on the diversity of products and skills in the sector. Large income inequalities are often found within the informal sector, with some workers earning far more than some formal sector workers. Current thinking on urban poverty puts greater emphasis on individual characteristics such as human capital endowments than on migration equilibrium with a fixed urban wage. Consistent with this emphasis, the urban informal sector has increasingly been viewed as having substantial growth potential, although this potential is hampered by market failures, excessive governmental regulations and a bias in favour of the formal sector.

Rural policy

133. Despite the importance of agriculture in developing countries and the concentration of the absolute poor in the countryside, government expenditure is usually directed toward urban areas and, within that area, toward manufacturing and commercial activities. Given that the bulk of the poor are in the countryside and the incidence of poverty is higher in rural areas, increased attention and more resources must be directed towards rural development in general, and to the role of the poor in the agricultural sector in particular, if substantial progress is to be made in rural poverty reduction in developing countries. Rural antipoverty policy should focus on improving the amount, productivity, stability and distribution of farm inputs, employment and output, and on the social and physical infrastructure of rural areas.

Targeted intervention for poverty alleviation

134. Governments of many developing countries have used targeted measures to enhance food entitlements and raise the income of the poor.[57] As part of structural adjustment programmes implemented since the early 1980s, however, food subsidies have been reduced in many developing countries explicitly through budget allocations and implicitly through overvalued exchange rates when food is

imported. Untargeted food subsidies, which can account for a large proportion of government expenditures and often benefit the non-poor as well as the poor, have in many cases been replaced by more targeted interventions, such as selected subsidies, food rations, food stamps and food supplementation. Targeting has been based on the selection of inferior foods (presumably consumed mostly by the poor), geographic area, income level, employment status, season of the year and attendance at health care clinics. Despite this shift in emphasis, abuses and leakages continue, and the information needed to design targeted programmes and the capacity to administer them remain insufficient. In the end, the efficiency of the different instruments will have to be balanced against the importance of the problem they address and their effectiveness in light of the political situation. This analysis will lead to different kinds of interventions in different countries.

135. The issue of targeting is especially relevant for food assistance in emergencies. Because of the life-or-death nature of assistance to the absolute poor in times of food scarcity, assistance must be immediate and unconditional. In dire emergencies, food for the famine stricken must be distributed rapidly, not simply for humanitarian reasons but also to prevent increases in the price of food. Often it is the rise in food prices - or the anticipation of a price rise - rather than the actual lack of food availability that causes starvation. Waiting to deal with an emergency until the desperate have congregated in camps or migrated in search of food can breed disease and result in death.[58]

136. Once the immediate threat is over, programmes can target reconstruction and relief directed at preventing a recurrence of the emergency. Public employment programmes are a form of intervention which can simultaneously prevent a decline in food production and distribution and help prevent future emergencies and disasters. Such programmes can include replenishment of seeds and youngstock and drought proofing through improved water management. In countries in which scarcity of infrastructure constrains relief efforts or exacerbates a disaster, public employment programmes to construct roads, breakwaters and irrigation systems will have positive long-term benefits.

4. Advancing opportunities for the poor

137. Efforts to reduce poverty must go beyond promoting prosperity through faster economic growth and social development through the provision of social services, especially education. Strategies for reducing poverty must also include programmes that deal with the specific economic and social problems of the poor in the circumstances of each country and, indeed, in the communities and rural areas in which the poor are concentrated. Programmes for the poor must be tailored to address local problems and local conditions, and they must aim to overcome obstacles and widen opportunities for the poor where they live and work.

Providing access to credit

138. One important way that the potential of the poor can be tapped is by improving access to credit.[59] Because input requirements and output flows vary throughout the year, poor people in rural areas need credit to smooth

consumption and production. In urban areas credit is needed to finance self-employment activities. High transactions and enforcement costs deter commercial and public sector lenders from lending to poor people or to people in remote areas, leaving the poor with insufficient credit in many developing countries. Inadequate access to credit may make it impossible for poor people to take advantage of opportunities that involve an initial period of learning or high risk. In such cases, subsidized credit may be justified as a means of encouraging experimentation (especially by the poor, the less literate and the more risk averse) and may be preferable to subsidies for specific productive inputs.

139. Thirty years ago directed credit programmes were a major development tool, and it was widely believed that the poor could be helped through massive subsidized credit, provided either by state-run or private banks. As problems with these schemes emerged, however, their usefulness was reconsidered. Experience in most countries showed that directed credit programmes stimulated capital-intensive, labour-displacing investments and involved high lending costs. Moreover, much state-subsidized credit never reached the poor but instead benefited rich clients, who borrowed at below-market rates and who often defaulted on their loans. To save agencies and banks from bankruptcy central banks were induced to expand credit, exacerbating inflation. These actions tended to drive out private savers and lenders by subsidizing their competition. A fundamental dilemma of the credit market in poor developing countries is that outside agencies (including government banks) lack sufficient information about borrowers and consequently insist on conditions that disqualify many of the poor. Where government programmes are not available, however, local lenders generally have limited funds and charge high interest rates.

140. The critique of the early experience with credit for the poor exaggerated the systems problems and overlooked some of its achievements. Expansion of formal credit to the rural sector in India, for example, had a substantial impact on non-farm rural growth and appears to have realized an acceptable economic return. Because of high transactions costs and collateral requirements, bank loans to rural households reached only a small proportion of the poor and provided less credit to the poor than to the non-poor. But the poor were not discriminated against in terms of loans per hectare, and they received a larger per hectare share of cooperative and regional rural bank lending than did the non-poor. Farmers operating less than 2 hectares received 62 per cent of Indian commercial bank loans in 1985 although they farmed only 26 per cent of operated area. Because banks forgave unpaid loans, such lending did constitute a huge cost to the state, but levels of overdues on formal credit grossly exaggerate the volume of bad debts.

141. A "new synthesis", based on more detailed analyses of financial institutions' experience in the 1980s and early 1990s, recognizes that lending to the poor, even if competitive, is inevitably expensive. Transactions costs per loan are in part fixed, for both borrower and lender, and thus represent a high proportion of the small loans that poor people often need. Such costs comprise an especially high proportion of the small, seasonally peaked, often consumption-oriented loans sought by the very poor. Formal lenders face even higher costs than local informal lenders in reaching and screening dispersed rural poor borrowers and in monitoring loans to them. Banks face greater

problems in enforcing repayment in remote and inaccessible areas, especially if there is no plausible collateral, as is usual for poor non-landowning borrowers. Lack of local knowledge raises the costs to large formal lenders arising from adverse selection (the fact that people likely to default on loans are more likely to seek them) and moral hazard (the fact that people may take greater risks if those risks can be shared with a lender). Even local moneylenders often face high screening costs to reduce such dangers. Local lenders face greater covariance because many borrowers in a region may simultaneously be unable to repay loans during bad times, especially in agricultural areas. Such covariance is much smaller for large, multi-purpose, multi-sector (and geographically diversified) lenders.

142. Because the use of insurance and intermediation as substitutes for small loans to individuals is costly, emphasis has shifted to the role of group lending. Members of a group jointly take responsibility for repayment by each member. If any member defaults, other members are denied future group loans, and the individual loses his or her reputation and has difficulty joining other groups. "Peer monitoring" within such groups enables lenders to reduce supervision costs and the risk of default on small loans without improving collateral requirements that exclude the poor. What is new in this approach is the combination of group lending and peer monitoring with intermediation, usually by branches of non-governmental organizations and with a primarily developmental role for credit that recognizes the issue of fungibility. Experience has shown that credit groups are most likely to succeed if they are small, voluntary and homogeneous. Of course, group homogeneity also creates economic risk, but this risk can sometimes be reduced by credit insurance. Moreover, high covariance of activities among members of a small group raises each member's concern about joint default and reduces the cost of mutual monitoring; it also increases the likelihood of benefit, since advice by fellow group members is likely to be based on similar experience.

143. Because even the best-run credit agency will experience some defaults, and small loans to the poor have high ratios of enforcement and administrative costs to loan size, interest rates on loans to the poor must be high. Local intermediation, however, can reduce administrative costs by 1 to 2 per cent of loan values, and efficient administration can reduce costs by another 3 per cent, according to Women's World Banking, an international non-governmental organization. Women borrowers - who are almost always undersupplied with credit because inheritance practices deny most of them the land needed as collateral - repay significantly larger proportions of their loans than do men.

144. Strict repayment discipline has been associated with larger proportions of credit reaching the poor (and women) and, with larger amounts of credit available for lending in the medium term. New wave lenders often have had to overcome an initial hurdle created by past politicalization of debt repayment, namely, the perception that the banks or other apex agencies were making gifts rather than loans. Many new wave semi-formal credit institutions have had repayment rates of 90 to 99 per cent. In contrast, most established formal lenders and cooperatives, which have been far less successful in reaching the poor, have repayment rates of only 50 to 75 per cent.

145. A recent review of the experience with credit policies and programmes in East Asia indicates that both economic and institutional factors are important in the design of successful directed credit policy programmes.[60] Economic factors include macroeconomic stability, a competitive domestic environment, an orientation towards exports and effective coordination of the range of policies involved in promoting growth and poverty reduction. Institutional factors include effective monitoring systems and coordination arrangements and an ability by government agencies to ensure compliance. The Asian experience with credit suggests that credit programmes should be small, narrowly focused and of limited duration; subsidies should be low (to minimize distortion of incentives); and credit programmes should be financed by long-term funds (to prevent inflation and macroeconomic instability) channelled through well-capitalized, administratively capable financial institutions which are professionally managed.

Land reform

146. Another important way in which opportunities can be promoted is by redistributing existing stocks of assets to the poor. Since the major asset potentially available to the absolute poor, especially in rural areas, is access to land, many of these efforts have focused on land reform. Large redistributions of land, such as those undertaken following the Second World War, have been associated with rapid reductions of poverty, but they have occurred only in times of great political upheaval. The pace of redistributive land reform slowed after the mid-1970s, but is picking up again in Latin America, Eastern Europe, South Africa and northeast Brazil, where it is being intermediated by local authorities and non-governmental organizations.

147. Based on a review of 11 studies, two conclusions can be drawn about the experience with land reforms over the past few decades. First, the only type of land reform that reliably reduces poverty and enhances efficiency and growth is redistribution that transfers land from large farms to small private farms. Other types of land "reform", including enforced registration of individual title, collectivization, state farming and prohibition of tenancy almost always hurt the poor and reduce farm efficiency. Second, evaluations of the impact of land reforms on poverty need to assess this effect on the sources of employment and incomes and the effects on the distribution and amount of net income received from land, which may on balance adversely affect the poor.[61]

148. The issue of land reform remains central to discussions of poverty reduction because in most of Africa and Asia the poor are overwhelmingly rural, and rural poverty incidence is strongly correlated with inequality in the size of farmland holdings. Indeed, the absolute poor are disproportionally engaged in agricultural and associated activities, often eking out meagre livelihoods from subsistence agriculture or as low-paid farm workers, and the most important determinant of inequality in rural income and wealth is the structure of land ownership. When undertaken in a decentralized, market-friendly fashion, non-confiscatory land reform can contribute significantly to poverty reduction, economic growth and more even income distribution. The smaller holdings created by a more even distribution of land are usually more productive than larger holdings, because of higher cropping intensities and greater labour intensity.[62]

Public works measures

149. A third way of promoting opportunities for the poor is by creating jobs through public works measures, most of which involve the construction, upgrading or maintenance of public infrastructure.[63] Public works programmes have several advantages. First, they tend to self-target the able-bodied poor. If the wage offered is low, such schemes attract only people who have few other opportunities to earn a living; and the corruption and arbitrary outcomes of direct targeting by project managers - and, to some extent, the imperfections of indirect or indicator targeting on groups or areas believed to have a high incidence or severity of poverty - are avoided.[64] Second, public works programmes provide an opportunity for training and removing barriers to job access. On-the-job training through public works projects can facilitate eventual private sector employment and higher incomes; public works jobs can also provide experience in the formal sector, with opportunities for counselling and training to raise the productivity of participants, particularly young workers. Arbitrary hiring standards and customary employment practices in the private sector often limit work opportunities for the poor, and public works employment can adjust standards and restructure work patterns until the level of workers' skills and experience meets private sector standards. Third, through the multiplier effect public works programmes raise the level of income in the local economy as a whole, thereby indirectly affecting poor people who do not participate in these schemes.

150. The record of public infrastructure employment for the poor has been mixed. Although early schemes were largely ineffective, programmes implemented since about 1980 have created many jobs for the poor and enhanced their incomes in the short term. Over the longer term, however, the effect on poverty has been small. Such programmes must thus be supplemented by other types of programmes and by the poverty-reducing impact of macroeconomic policy that promotes strong economic growth.

151. To be successful a public works employment programme must employ enough people to account for a significant share of the workforce. Bolivia's Social Insurance Fund, for example, employed 3 per cent of the workforce in mid-1987. In Chile public works programmes employed 6 per cent of the workforce in 1976 and 13 per cent in 1983 (at a cost of only 1.4 per cent of GNP in 1983, indicating very low average wages and successful self-targeting). In Honduras some 5 per cent of the workforce was employed by public works projects in 1990-1993, which was enough for unemployment to fall by 20 per cent. In Cape Verde in 1983 and Botswana in 1985-1986 some 25 to 30 per cent of the workforce was employed in labour-intensive public works; income generated from these projects appears to have prevented rising mortality despite a prolonged and severe drought. Two of the largest programmes in terms of number of workers employed and duration are Bangladesh's Food for Work Programme and the successors of Food-for-Work in India, which are now largely based on cash payments. The Employment Guarantee Scheme (EGS) in Maharashtra (India) appears to have reduced rural unemployment by 10 to 35 per cent; in a sample of villages almost half of wage employment was supplied by the scheme, which cost about 10 to 14 per cent of the state budget. In India as a whole about 2.2 million full-time-equivalent working year have been generated by major employment schemes, the vast majority of them in rural areas. Although the number of jobs

created has been large, less than 2 per cent of India's rural workforce has been employed in public works schemes. Moreover, not all of the jobs created by public works programmes have represented additional employment because low wage rates have encouraged local officials to use these programmes for construction that would have taken place even in its absence. Nonetheless, public works programmes in India have probably created enough new jobs, including multiplier and subsequent spreading effects, to reduce poverty significantly, at least in the short run.

152. Although public works programmes have helped reduce poverty in the short run, they do not facilitate a permanent escape from poverty - unless the programme has been designed to build up financial, physical or human capital assets (savings, buildings and equipment, infrastructure, skills and training, and health) owned by or providing future employment to the poor. Some forms of village infrastructure, such as the drought management works favoured by Maharashtra's EGS, may help the poor directly by providing some protection against crop loss. Other projects, however, such as the drift of EGS resources towards road building between 1984 and 1990, have tended to benefit the wealthier rural population. Employment schemes to build primary schoolrooms (as in Kenya's Harambee programme in the 1960s, for example) can help the poor by increasing their human capital. In Bolivia a programme that focused on small basic health and education projects has created social services likely to benefit mainly the poor. In Honduras health care and primary school attendance both appear to have risen by about a quarter as a result of new facilities created by employment projects.

153. Public works projects should benefit the poor. However, if only the poor benefit, support by the rest of the population for costly employment schemes may be weak. Moreover, according to one researcher, employment schemes are designed mainly to alleviate current poverty, and there are better ways of creating assets.[65]

154. Although anti-poverty programmes tend to be implemented at the local level, extensive poverty - especially mass absolute poverty - is not simply a local phenomenon, and the problem of poverty is not confined to the localities in which it is most prevalent. Poverty may reflect more basic national problems - an unequal distribution of opportunities and wealth, an unstable macroeconomic environment, a legacy of social tensions - that local efforts and local programmes cannot overcome. For this reason, reducing poverty must be seen as both a national responsibility and a local commitment. Finally, anti-poverty programmes that provide opportunities for the able-bodied poor cannot address the needs of the aged poor or those made poor by disability and infirmity, who lack not only income but also any realistic opportunity to become productive and raise their incomes.

5. Providing a safety net for vulnerable groups

155. The problems of the poor are many and diverse.[66] Families are large, health status is poor, living conditions are hostile, and employment opportunities are scarce. Poor people who are unable to work are often isolated from their families, friends and society at large. For the working poor, the very changes

associated with economic and social development often threaten their already meagre livelihoods. The pace of rapid and uneven development may make "adjustment" impossible, even for those willing and able to adapt under less demanding circumstances. In these situations, safety nets may help address the problems of those permanently living in poverty or affected by change in a way that prevents them from being able to respond to the transformations and opportunities brought about by development. Specific groups for whom safety net programmes may be needed include the aged, the ill, the disabled, broken families and victims of discrimination.

Social security and social assistance

156. Formal arrangements for protecting individuals, families and communities from income inadequacy, variability and loss depend on a country's capacity to protect its population against various contingencies through institutionalized mechanisms for redistribution and insurance. As of 1990 about 150 countries had established some type of social security programme; a much smaller number of countries have programmes for social assistance benefits.[67] Social security programmes in developing countries differ widely in their coverage and usually cannot afford to include the poor in their schemes. Coverage of these programmes varies considerably across countries. While most countries have some type of employment injury compensation programme, few developing countries currently extend unemployment benefits to their working populations or have schemes covering sickness or maternity. Most of the programmes cover only workers in the formal sector, where the workforce is stable. The large share of the population that lives in rural areas and engages in subsistence activities or works in the informal sector in rural and urban areas is not protected under current formal arrangements. Compliance with social security and other regulations by employers and others is often weak, administrative overhead expenses are high and disbursements are delayed, limiting the benefits of these programmes. Many programmes have also run into actuarial imbalances which threaten their longer-term viability.[68]

157. Several middle-income developing countries, mainly more urbanized countries in Latin America, have introduced formal social security and insurance programmes which cover such contingencies as unemployment and employment injury benefits, old age pensions, medical care and disability, and widowhood needs. In some countries in Latin America, North Africa and South-East Asia, social security coverage has been extended to some agricultural workers and people engaged in the informal sector, such as domestic workers and some of the self-employed. Other countries have made voluntary coverage available,[69] but in most developing countries coverage remains low and does not extend to the working poor.

158. Where absolute poverty is pervasive and the average level of income is low, formal systems for social protection and income transfers are not available and will not be feasible in the near future. In these countries, credit and insurance markets are underdeveloped and the labour market is characterized by a high proportion of self-employment in an informal setting. Tax collection in these countries is difficult, and competing demands on budgetary funds - for capital outlays on infrastructure and for primary education and basic health care - exhaust available resources. Formal social security schemes require the

regular collection of contributions, the timely recording of these collections, their safe and productive investment and the eventual payment of benefits in a timely manner, all at reasonable cost. Programme implementation requires a highly developed organization to collect, administer and disburse funds, a requirement which is beyond the financial, human and physical resource capacity of many developing countries, especially the poorest.[70]

159. Distribution of low-cost or free food rations, especially at times of natural disaster and in the aftermath of war and civil calamities is provided in almost every country. National efforts in this area are often assisted by the international community, including many non-governmental institutions, as well as donor Governments and international agencies.

The family and the community

160. The family is the principal informal source of security, and often the only means of averting stark deprivation. It is particularly important for supporting children, the elderly and the disabled. For all people, the family is the prime source of support for the young. Young people seeking their first job depend more on parents than they do later in life,[71] but poor parents are unable to give their children the same opportunities as children from non-poor families. More than half of elderly people in the world depend on the family to provide them with the necessary resources, and the family remains a major source of support for the disabled.[72]

161. In developing countries support for people without families who are unable to work, for households without income earners and for individuals and households suffering from adverse events beyond their control tends to be based on community-level food security arrangements. Community-based efforts are also common where the local population shares a high-risk occupation, as, for example, in traditional fishing communities or drought-prone agricultural areas. In these kinds of situations, shared contacts among the local population and common risks across households often generate informal arrangements within the community for providing for the elderly and for poor families that have lost all adult income earners. Often these support systems are based on religious customs. Local provision can be effective in identifying the indigent and providing for households in immediate distress, but it can also break down at times of severe adversity. Moreover, family and local ties appear to be weakening, which may impair the ability of community-based mechanisms to cope with adversity. Formal efforts by the state can play an important role in aiding those most vulnerable to poverty and least able to overcome it, especially in the face of severe shocks which threaten households or entire communities at the margin of subsistence.

Public and private sector support for the most vulnerable

162. Formal efforts by the public sector may supplement and enhance long-standing informal efforts by families and the community to provide for those without a secure means of support. This is particularly important when communities are faced with natural disasters, civil strife and economic shocks. In dire emergencies, the international community, particularly non-governmental organizations, can and does provide a wide range of relief and emergency

assistance, including food, emergency health care, technical assistance related to relief efforts and a variety of other resources and programmes. (The term non-governmental organization or NGO is applied to a variety of non-profit or voluntary organizations, ranging from international development organizations to religious groups to informal associations such as women's groups and sports teams.)

163. Governments of very poor countries are less likely to be able to respond than governments with greater resources at their disposal, and mainstream development organizations and international agencies have been criticized for failing to provide adequate relief for the vulnerable. For this reason, the international community has increasingly turned to NGOs, which are perceived as more flexible, participatory and responsive to the needs of the poor. Whatever their organization or scope, many NGOs share a dedication to poverty eradication and social development. They tend to work on a smaller scale and are closer and more sensitive to community values and environmental conditions than traditional national and international agencies. In the field NGOs are often more resourceful and flexible, require less financial input than government agencies and involve more local people, both in identifying and resolving development problems and in implementing their programmes.

164. Much of the work of NGOs has focused on humanitarian emergencies, but attention has also been given to longer-term work in institutional development, education and other aspects of local capacity-building. NGOs have been particularly effective in projects promoting micro-enterprises, micro-credit schemes, support for small farmers and other rural production activities. Their role also encompasses extension services and natural resource management, especially programmes targeted at disadvantaged groups. Because of their relative independence, non-governmental organizations have been difficult to integrate into national strategies for poverty reduction and lack the leverage necessary to maintain their influence when other, more powerful competing interests are involved. Nonetheless, they remain an increasingly important instrument in efforts to reduce poverty.

6. Participating in the world economy

165. Increased participation in the world economy promotes faster economic growth and higher incomes as efficiency increases as a result of heightened competition, improved resource allocation based on more rational prices, access to cheaper sources of finance for capital accumulation, exposure to new ideas and access to more advanced technologies and products. The process of global integration spurs demand for labour-intensive exports from low-income countries with low wages and a wide scope for productivity increases and enlarges the supply of consumer goods in the domestic markets of these countries. The resulting pressures to raise wages in the export sector and lower prices in consumer markets help to move the poor out of poverty by increasing the real purchasing power of their growing income. In low-income countries policy reforms at the national level designed to expand labour-intensive exports, encourage direct investment and increase competition from imports can therefore make a major contribution both to economic growth and to poverty reduction. Specific actions in support of poverty reduction can also be taken by the

international community when integrating poor countries into the global economy by improving market access for their exports, providing greater foreign investment in their labour-intensive industries and increasing development assistance for building the human, physical and institutional capacity required to compete in world markets.

166. While the international economy holds great potential benefits for poor countries and a promise of higher wages and real incomes for those who labour in poverty, the requirements of an increasingly integrated world economic system present great challenges for countries handicapped by shortages of physical and financial capital, limited trained manpower and few established channels of commerce and communication with the rest of the world. Moreover, modern international commerce requires great flexibility in the movement of labour and capital from activities of low return to those of high and rising productivity and the rapid incorporation of technological advances and new methods of production. For developing countries - especially low-income and least developed countries - the already difficult problems of competing in international markets are compounded by tariffs, quotas and other barriers to the export of primary products and manufactured goods and by fundamental imbalances and structural rigidities in their domestic economies. These constraints on generating export revenues are reflected in a persistent import surplus, a growing burden of interest and amortization payments on external debt and an inability to establish stable patterns of trade with other countries.

Requirements for participating in world markets

167. The limited success least developed and disadvantaged countries have had in expanding their exports and containing their imports has brought into sharper focus four essential requirements for successful participation in world markets:

1. Closer integration of domestic and international markets requires structural adjustment by withdrawing labour and other resources from areas of low productivity and high underemployment and shifting them to activities and processes in which productivity and incomes are higher and the country has a comparative advantage.

168. To respond to the potential demand for low-cost labour for producing manufactured exports, poor countries must adapt production to export requirements - something that is often difficult in developing countries because the relevant forces and policies are either too weak to expand and diversify exports or the domestic costs of adjustment are unacceptably high in terms of displacement and hardship imposed on an already poor population. Moreover, the domestic and external resources required to effect adjustment are often inadequate. The domestic economy of a poor country tends to be undiversified, with large agricultural and mining sectors. Consequently, low-income and least developed countries depend heavily on export earnings from the sale of a few primary products. Prices for primary products are subject to marked year-to-year fluctuations - and in the case of many of them, declining price trends - making primary products an unreliable source of foreign exchange and an inadequate basis for generating the resources necessary to undertake large-scale adjustment. The low skill level of workers and the technological backwardness

of industry also make it difficult for these countries to break into the market for manufactured goods.

2. In order to identify lines of production in which to specialize, the terms of exchange between the local currency and those of each trading partner must reflect relative costs of production in the two countries, and they must be sufficiently stable to foster confidence in international dealings but not so rigid as to preclude necessary adjustments in response to changes in patterns of commerce and the terms of trade.

169. The limited extent of the market in many poor countries and the administrative nature of the price systems in many of them tend to divorce prevailing prices from costs or supply and demand conditions. Artificially low relative prices for farm output, for example, create a terms of trade imbalance between rural and urban areas and between agricultural and manufactured goods and affect the determination of comparative advantage on world markets. As a result of this divergence between costs and prices, prevailing prices cannot serve as adequate indicators of factor costs incurred in production or consumer wants satisfied in consumption. In countries in which relative prices in the domestic market do not reflect relative costs of producing exportables and importables, the exchange rate will fail to link the domestic economy efficiently with the rest of the world and cannot serve as a basis for decision-making for either domestic resource allocation or international trade. In low-income countries, distortions in domestic prices and an overvalued exchange rate are likely to lead to trade patterns that are inconsistent with their comparative advantage in low-cost labour-intensive exports.

170. Another factor adversely affecting the ability of developing countries to increase exports is the rate of inflation. In poor countries excessive internal demand on the limited resources available (especially from the government sector), an expansive monetary policy to accommodate high levels of public spending, price rigidities in domestic markets and price fluctuations in external markets all combine to promote domestic inflationary pressures. A country incurring price increases greater than the average of other countries will find its exports becoming less competitive and its domestic markets more accessible to imports through an increasingly overvalued exchange rate. While a country can discourage imports and encourage exports by adjusting its exchange rate downward, lowering the value of the currency is in itself inflationary; devaluation may seriously impair the ability of a small poor country to borrow on capital markets and finance existing debt. Persistent upward cost and price pressures and repeated devaluations in response to internal and external imbalances also destroy the confidence of producers and investors in the economic climate and the convertibility of the country's currency.

3. National policies must give high priority to achieving domestic economic balance and balance-of-payments equilibrium, by avoiding excessive domestic demand and promoting the supply of exportables.

171. When a deficit in the balance-of-payments arises a country can seek to correct the imbalance by fiscal and monetary measures that affect the total level of domestic demand or by selective measures directed at external

transactions (such as imposing import surcharges or quotas or restricting capital movement). To increase exports it can adopt measures to improve the country's productivity and resource mobility, especially measures directed at raising efficiency in its export-oriented industries, and it may use wage-price policies to affect both exports and imports. Countries with a balance-of-payments surplus have a special responsibility to maintain an adequate pace of economic expansion and a sufficiently open domestic market to help the balance-of-payments adjustment process of countries with a deficit.

172. Policy effectiveness can vary markedly from country to country. Many low-income developing countries are characterized by a weak administrative apparatus and few policy instruments acting on a narrow economic base, which make policy support for balance-of-payments adjustment and other policy objectives ineffective. Tax systems, for example, are often unreliable as sources of government revenue and as a basis for instruments of policy, and government spending may be difficult to control for political reasons. Techniques for carrying out monetary policy are imperfect in all countries and, in any event, monetary policy tends to be ineffective in an economy in which a high proportion of transactions with the rest of the world are carried out with reference to the local currency. Finally, short-term supply-oriented measures designed to spur exports or restrict imports are normally not effective in a country in which only a limited range of trade activities are carried out. In these circumstances the balance-of-payments adjustment process tends to focus on restrictions on imports rather than promotion of exports, limiting the inflow of cheaper imported goods and minimizing the expansion of labour-intensive export.

4. There must be sufficient liquidity to finance temporary external imbalances and adequate domestic saving and inflows of foreign capital to finance capital formation and investments in human capital leading to a faster rate of economic growth and higher standards of living.

173. International specialization and exchange facilitate access to finance from other countries, which can help prevent short-term disruptions in the domestic supply of goods and services and provide long-term inflows of capital and technology. External capital is obtained by offering a future stream of a country's own products in payment, where the decision to borrow is based on the sacrifice of the domestic resources that would be required to produce the imported goods at home and instead pay principal and interest on loans and investments. When supplementary external resources are used efficiently a country can gain time to redress potentially disruptive imbalances in its external accounts; long-term borrowing can augment a country's productive capacity at a higher rate than domestic saving would allow. In both situations the cost of the foreign resources is less than the disruptions avoided and the additional productive capacity created.

174. Most developing countries have financed short-term balance-of-payments deficits and the bulk of their development needs from their own domestic saving and reserves, although some countries emerged as major borrowers on international capital markets in the 1970s. In the 1970s and 1980s, many countries faced severe international shocks, including increases in oil prices and interest rates, which led to large government deficits, rising inflation, overvalued exchange rates and pervasive governmental controls on the domestic

economy and international payments. Combined with domestic policy failures these difficulties placed a number of developing countries, especially Latin American and African countries, under severe balance-of-payments pressures, and they were unable to make regular payments to service their accumulated external debts. In response to the deteriorating situation, stabilization and adjustment measures were introduced. Real wages fell significantly, social services were curtailed in many countries and income inequality increased. The adjustment process severely affected workers in the public and parastatal sectors, privatized firms and import-competing enterprises. The majority of the absolute poor in these countries were affected by cutbacks in social expenditures for primary education and health care.

175. Deregulation and liberalization policies introduced at this time - often as part of structural adjustment programmes supported by the World Bank and the International Monetary Fund - were intended to liberalize their trade and investment regimes, strengthen their export capacity and adapt their domestic economic structures to world market conditions. While substantial progress has been made towards liberalization in developing countries over the past decade and a half - especially in trade reform and the inflow of foreign direct investment - and faster economic growth has been registered in Latin America and the Caribbean, many least developed and other disadvantaged countries have failed to recover from the depressed conditions of the 1980s, largely because of constraints on the implementation of liberalization policies and the limited responsiveness of the economy to them. Because of their positive effects on trade and investment, liberalization policies have been seen as offering the best prospects for economic growth and poverty reduction in developing countries. There is, however, widespread concern about potential adverse effects on the poor in some developing countries, especially those in sub-Saharan Africa, where poverty is most entrenched.

Integrating poor countries into the world economy

176. Participation in the world economy has the potential of being of greatest benefit to the absolute poor in least developed and other disadvantaged countries. By redirecting their production and offering low-cost, labour-intensive products in payment, these countries can acquire imports with less sacrifice of their limited domestic resources than would be required to produce the same goods at home; and at the same time they can boost the incomes of the working poor. This redirection of production requires large-scale reorientation of their domestic economies, stable exchange rates that translate exporters' selling prices into importers' currencies at relative factor costs, domestic policies that encourage macroeconomic balance, foreign investment and exports, and sufficient finance and capital inflows to promote a high and stable rate of economic growth. Achieving the required restructuring of economic activity and reorientation of policy is much more difficult for the poorest countries than for other developing countries.

177. For poor countries, domestic liberalization demands implementation of a sound macroeconomic policy framework, with small deficits in their budgets and balance-of-payments; establishment of realistic prices, interest rates and exchange rates in a commercial setting that encourages efficiency, productivity and international competitiveness; a shift in economic structure towards a more

deregulated and market-oriented system, with a small but efficient public sector and a more vigorous private economy; and a significant opening of the economy to the rest of the world, through both a lowering of foreign import barriers and an increase in foreign investment. Steps taken towards achieving a rapid expansion of output and employment in labour-intensive industries geared to exports must be seen as central to reducing poverty, since without structural change and increased investment continued stagnation will increase inequality and result in even larger numbers of people living in absolute poverty. Similarly, efforts to improve efficiency and competitiveness will be handicapped by shortages of trained manpower and a workforce hampered by poor health. For this reason, economic reform must be accompanied by higher social expenditures directed at both improving the human capital of the labour force and the social development of all groups, particularly children.

178. Given the magnitude of the task facing poor countries, it is clear that this transition cannot be accomplished without the support of the international community. Although policy priorities, institutional changes and implementation of programmes directed at reorienting the domestic economy remain the responsibility of national governments, balance-of-payments constraints and insufficient domestic saving limit this transformation. Least developed and other low-income countries will require substantially more capital than they can accumulate from domestic savings or raise externally on commercial terms in the foreseeable future. Additional support for empowering the poor through social development expenditures is also necessary. The restructuring of the economies of the developing countries and their successful integration into world markets will thus depend on an enabling international environment.

Contribution of the international community

179. Improved access by poor countries to foreign markets, increased use of external financing of cyclical short-term balance-of-payments fluctuations and higher levels of foreign investment and concessional assistance are critical for poor countries. Debt servicing continues to require a high level of resources in many developing countries. Efforts will be needed to reduce the constraint of debt burdens on the balance of payments. Demand for and prices of goods exported by many poor countries remain low, and their access to markets for labour-intensive products in which they have a comparative advantage continues to be constrained by trade barriers. Relaxation of farm trade policies and non-tariff trade barriers on agricultural exports to the developed market economy countries would represent a modest step towards meeting the foreign exchange needs of the countries that export these commodities. A shift in public and private international investment flows towards poor countries is required to support their efforts to expand and restructure their economies. Private foreign investment has proved to be a particularly effective mechanism for the transfer of capital and the associated technical and managerial skills. Such investment has been made in only a small number of countries, however.

180. Both increased development assistance and greater national commitment are essential for the full and effective implementation of strategies to eradicate poverty from the globe. Experience has demonstrated both the value of foreign assistance in promoting development and the need to ensure that it is effectively utilized. Concessional finance and technical assistance from both

public and private sources have been important in accelerating development in many developing countries, but they have been unevenly distributed across countries and have not focused narrowly enough on the problem of poverty reduction in the poorest countries. Multilateral lending agencies - the World Bank family and the regional development banks - have given greater priority to poverty reduction in their operations, and poverty reduction is now seen as an important element in the design of adjustment programmes of the International Monetary Fund. Indeed, the World Bank has played an important role in protecting social expenditures by increasing its volume of lending for primary education and health care in recent years and by making protection of those sectors a requirement in its lending for structural adjustment. Assistance channelled through other international agencies has also been redirected to emphasize the importance of poverty reduction. A substantial increase in the total volume of international aid will be required, however, to support a reorientation of policies and programmes in the poorest countries.

181. At the same time recipient countries must use these resources more effectively in the fight against poverty. Many donor countries have insisted that increased assistance be conditional upon both a change in priorities towards poverty reduction and more efficient use of available technical and financial resources, including those associated with social development and environmental protection.

Notes

[1] These conferences include the World Summit for Children, the World Conference on Education for All, the International Conference on Nutrition (Rome, 1992), the World Conference on Human Rights (Vienna, 1993), the International Conference on Population and Development (Cairo, 1994), the World Summit for Social Development (Copenhagen, 1995), the Fourth World Conference on Women and Development (Beijing, 1995), and the United Nations Conference on Human Settlements (Habitat II) (Istanbul, 1996).

[2] In this regard, as noted in the previous Report on the World Social Situation and further substantiated below, there has been an increasing tendency towards inequality in incomes and living standards both nationally and internationally.

[3] There is a vast literature dealing with poverty concepts and measurements. See, inter alia, M. Ravallion, "Poverty Comparisons - A Guide to Concepts and Methods", Working Paper No. 88, World Bank, Washington, D.C. (1992); Carvalho and White, "Indicators for monitoring poverty reduction", Discussion Paper No. 254, World Bank (1996); and Slotte, "Research on Economic Inequality" (Connecticut: JAI Press, 1995).

[4] The most widely known composite index is the Human Development Index formulated by the United Nations Development programme in its annual Human Development Report. This index combines indicators of life expectancy, educational attainment and income, and several variants of the basic index have been prepared by UNDP to take into account such disparities as gender inequalities and income distribution. For a detailed discussion see UNDP, Human

Development Reports, 1994 (Chapter 5) and 1995. As in constructing any composite index, there is no generally accepted method of determining the weights to be used when combining the different components into a single index. For this reason, ranking may vary according to the particular weights chosen.

[5] The international comparisons of consumption and gross domestic product presented below are based on purchasing power parity conversion factors compiled as part of the International Comparisons Programme (ICP) coordinated by the Statistical Division of the Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat. The most recent phase of the ICP, which was for 1985, covered a set of only 64 countries. (See World Comparisons of Real Gross Domestic Product and Purchasing Power, 1985: Phase V of the International Comparisons Programme, Series F, No. 64 (United Nations publication, Sales No. E.94.XVII.7). Information from ICP studies have been used to prepare a more comprehensive set of estimates as part of the "Penn World Table" issued by the University of Pennsylvania. A revised version of the "Penn World Table" (PWT Mark 5.6) was used for countries that had not participated in the ICP. (See R. Summers and A. Heston, "The Penn World Table Mark 5): an expanded set of international comparisons, 1950-1988", Quarterly Journal of Economics, vol. 106, No. 2 (May 1991), pp. 327-368, for a description of procedures used to extend the original data set.

[6] Alternative methods and problems and bias involved in estimating of the incidence of poverty are discussed in H.-J. Brinkman, "Why estimates of the incidence of poverty differ", Department of International Economic and Social Affairs Working Paper Series, No. 14 (October 1990).

[7] It should be noted that the choice of welfare indicator when estimating the number of poor can make a substantial difference. As mentioned above, the focus of this section is on the income dimension of poverty, and the estimates prepared by the World Bank use an income criteria as a basis for estimating the number in poverty. Other potential indicators are household food expenditure per capita, household caloric intake per capita and the share of food in household expenditure. For a brief discussion of the implications of different welfare indicators for assessing economic behaviour and characteristics of the poor counting the number of poverty, see S. Anand and C. J. Harris, "Choosing a Welfare Indicator", American Economic Review (May 1994).

[8] See M. Ravallion, G. Datt and D. van de Walle, "Quantifying Absolute Poverty in the Developing World", Review of Income and Wealth (December 1991).

[9] The estimates discussed here revise and update those in Implementing the World Banks Strategy to Reduce Poverty (Washington, D.C., World Bank, 1993). There are a number of differences between these figures and previous estimates, including those in World Development Report, 1990 because of: (a) an increase in coverage as new household survey data became available; (b) a change in methodology, which avoids many of the extrapolations used in earlier estimates; and (c) a switch to new purchasing power parity (PPP) indices. Significant changes in the estimates occurred because of a revision to the PPP index for China, which substantially raised the estimates of absolute poverty there. Revisions to the PPP index for India and other countries lowered the poverty

rate in South Asia, North Africa and West Asia. Estimates for Latin America and sub-Saharan Africa were affected only slightly by the revisions to the PPPs.

[10] Two differences between the PPP estimates presented in the previous section and those presented here should be highlighted. In the discussion above of world growth and global poverty, economic growth and levels of output per capita were estimated in terms of GDP measured in constant 1990 prices and PPP exchange rates. In preparing its estimates of the population living below IS1 per day, the World Bank focused on consumption measured in constant 1985 prices and PPP exchange rates. The use by the World Bank of the same level of real consumption rather than GDP to define the poverty line focuses on the actual level of goods and services available to the poor; the use of GDP focuses on the total amount of resources available for both consumption and capital formation. The use of a different base year for the constant price data is unlikely to have a significant effect on estimates of rates of growth, the classification of countries by level of per capita product or the number of poor or incidence of poverty in a region.

[11] Details on the data and methodology used in preparing the World Bank's estimates of the number and percentage of the population in poverty are given in Martin Ravallion and Shaohya Chen, "What can new survey data tell us about recent changes in living standards in developing and transitional economies", Policy Research Department, Washington, D.C., World Bank (1996) and Poverty Reduction and the World Bank (1996).

[12] One reason may be that income distribution became more uneven in China after the economic reforms of 1978 and 1985. For further information on income distribution trends in China, see Report on the World Social Situation, 1993 (United Nations publication, Sales No. E.93.IV.2), p. 90.

[13] See Michael Ignatieff, "On civil society", a review of Ernest Gellner, Conditions of Liberty: Civil Society and its Rivals, Foreign Affairs, vol. 74, No. 2 (March/April 1995), pp. 128-136. The seminal work is Essay on the History of Civil Society (1767), by Adam Ferguson, Professor of Moral Philosophy at the University of Edinburgh.

[14] As the Communist Manifesto expressed it, "The modern labourer, on the contrary, instead of rising with processes of industry, sinks deeper and deeper below the conditions of existence of his own class. He becomes a pauper, and pauperism develops more rapidly than population and wealth. And here it becomes evident that the bourgeoisie is unfit any longer to be the ruling class in society, and to impose its conditions of existence upon society as an overriding law".

[15] The Gini coefficients oscillated between 20 per cent for Czechoslovakia and 26 per cent for the Soviet Union; the interdecile ratio varied between 2.4 and 3.6, values even lower than those prevailing in the Western developed market economies other than Scandinavian countries. For a detailed discussion of this issue see Report on the World Social Situation, 1993 (United Nations publication, Sales No. E.93.IV.2), p. 95; Giovanni Andrea Cornia, "Income distribution, poverty and welfare in transitional economies: a comparison between Eastern Europe and China" (Florence, International Child Development

Centre, UNICEF, 1994); Innocenti Occasional Papers, No. 44 (Florence, International Child Development Centre, UNICEF, 1994); and Branco Milanovič, "Income, inequality and poverty during the transition", World Bank Research Paper Series, No. 11 (Washington, D.C., World Bank, 1966), p. 22.

[16] See table VI.2. in the World Economic and Social Survey, 1996 (United Nations publication, Sales No. E.96.II.C.1), p. 112.

[17] In the 1980s, poverty in Poland increased from less than 10 per cent to almost 23 per cent; in Yugoslavia, it rose from 17 per cent to 25 per cent. In Hungary it remained about 15 per cent. See Sándor Sipos, "Poverty measurement in Central and Eastern Europe before the transition to the market economy", Innocenti Occasional Papers, No. 29 (Florence, UNICEF, 1992), p. 4.

[18] The 1989 level, which Poland attained in 1996, was about equal to the 1975 level.

[19] There is no agreement on how to estimate the contribution of the shadow economy to annual GDP in the transition economies and various estimates abound. In Hungary, Ékes estimates the size of the shadow economy at 15 per cent in 1992; Árvay and Vértes come up with a figure of 17 per cent in 1993. Milanovič estimates the size of the shadow economy at 10 per cent in the Czech Republic and about 20 per cent in Russian in 1994. See I. Ékes, Rejtett gazdaság. Láthatatlan jövedelmek tegnap és ma (The hidden economy: invisible incomes yesterday and today), Budapest 1993; János Árvay and András Vértes, The share of the private sector and the hidden economy in Hungary, Budapest, Gazdaságkutató Intézet, 1994; and Branco Milanovič, "Income inequality and poverty during the transition", World Bank Research Paper Series, No. 11 (Washington, D.C., World Bank, 1966), p. 22.

[20] In early 1994, 30.7 per cent of the population in the Russian Federation lived below the subsistence level of 63,945 rubles. By region 43.7 per cent of the population in Eastern Siberia, 22.1 per cent in the central region, 28.5 per cent in Western Siberia, and 37.9 per cent in the Far Eastern region lived below the regional subsistence level. (Ekonomicheskie novisti Rossii i Sodruzhestva, No. 13, July 1994, p. 8).

[21] OECD Economic surveys, The Russian Federation 1995 (Paris, OECD 1995), p. 9.

[22] In Poland, for example, each 10 per cent increase in the poverty line adds about 2.5 million people to the ranks of the poor. See World Bank Understanding poverty in Poland (Washington, D.C., 1995), p. xiii.

[23] See Martin Ravallion and Shaohua Chen, "What can new survey data tell us about recent changes in living standards in developing and transition economies?" (Washington, D.C., World Bank, Policy Research Department, 1996), p. 22.

[24] Although poverty among pensioners in Russia increased from 21 per cent in December 1994 to 34 per cent in October 1995, it remains below the national average. See United Nations International Children's Emergency Fund (UNICEF),

International Child Development Centre, "Poverty, children and policy: responses for a brighter future", Economies in transition studies, Regional Monitoring Report, No. 3, 1995, p. 16.

[25] About 70 per cent of Poland's estimated 7.5 million poor reside in cities. (See Carol Graham, Safety nets, politics and the poor, Washington, D.C., The Brookings Institution, 1994, p. 219). Using the minimum pension as the poverty line, the World Bank comes up with a lower estimate of the number of people living in poverty (5.5 million), but confirms that 70 per cent of that population reside in urban areas. (See Understanding poverty in Poland (Washington, D.C., World Bank, 1995), p. xiii.)

[26] In Siberia 80 per cent of the income of the average worker in the scientific sector (education and research) is now spent on food. (See N. Tchernina, Economic transition and social exclusion in Russia. International Institute for Labour Studies and United Nations Development Programme Research Series, No. 108 (1996), p. 48.)

[27] Branco Milanovič, "Income, inequality and poverty during transition", World Bank Research Paper Series, No. 11 (Washington, D.C., 1966), p. 134.

[28] See UNICEF, International Child Development Centre, "Poverty, children and policy: responses for a brighter future", Economies in transition studies, Regional Monitoring Report, No. 3, 1995, p. 10.

[29] Rudolf Andorka and Zsolt Spéder, "Szegénység alakulása 1992 és 1994 között a 90-es évek elején" (Development of poverty between 1992 and 1994 at the beginning of the 1990s), in I. Gy. Tóth, ed.: Társadalmi átalakulás 1992-1994: jelentés a magyar háztartás panel III. hullámának eredményeiről (Social transformation: report on the results of the third wave of the Hungarian household panel), Budapest, Aula, 1994).

[30] M. Mozhina, "The poor: what is the boundary line?", Problems of Economic Transition, vol. 35, No. 6, pp. 70-75.

[31] In 1913, per capita income in Russia was about 12 per cent, per capita income in Spain was 20 per cent and per capita income in Italy was 25 per cent that of the United States. (See P. Gregory, Russian National Income 1885-1913 (Cambridge, Cambridge University Press, 1982), pp. 155-157 and World Development Report 1996 (Washington, D.C., World Bank).) By 1991, according to World Bank statistics, per capita income had risen to 14 per cent of United States income in Russia, 56 per cent of United States income in Spain and 83 per cent of United States income in Italy.

[32] Such figures are subject to wide margins of error, and extreme caution should be used in making cross-country comparisons. The deficiencies of GDP as an indicator of economic activity and economic well-being and methods used to compare different output mixes in different countries should be noted when assessing economic performance as indicated by average rates of economic growth for different groups of countries. GDP encompasses mainly the production of marketed goods and services; aggregate figures for the GDP and overall averages, such as GDP per capita, provide no information about the distribution of income

or the economic benefits different segments of society may gain from economic growth. International comparisons, even those based on purchasing power parity, provide only a proximate measure of the economic distance between countries.

[33] See Report of the World Summit for Social Development (United Nations publication, Sales No. 96.IV.8).

[34] In March 1995 UNDP launched a Poverty Strategies Initiative designed to support countries' follow-up to and implementation of Social Summit commitments on poverty reduction. This effort provides help in formulating and strengthening policies that address the structural causes of poverty and inequalities among various population groups.

[35] World Bank, World Development Report, 1990 (New York: Oxford University Press, 1990), FAO, Employment Wages and the Rural Poor (Room: FAO, 1991), and Michael Bruno, Martin Ravallion and Lyn Squire, "Equity and Growth in Developing Countries", World Bank Policy Research Working Paper (January 1996). On the other hand, see an earlier study by A. Saith, "Production, prices and poverty in rural India", Journal of Development Studies (1981), pp. 196-214, for a counter point of view.

[36] Michael Lipton and Martin Ravallion, "Poverty and Policy", chap. 41, Handbook of Development Economics, vol. IIIB. Edited by J. Behrman and T. N. Srinivasen (Amsterdam, The Netherlands. Elsevier Science B.V., 1995), p. 2603.

[37] Cited by M. Bruno (1994).

[38] L. Demery, B. Sen and T. Vishwanath, "Poverty, Inequality and Growth", Discussion Paper 70, Education and Social Policy Department, The World Bank (June 1995).

[39] Deininger and Squire (1995) and Ravallion and Chen (1996).

[40] Demery, Sen and Vishwanath (1995).

[41] Ravallion and Chen (1996).

[42] Private consumption as measured in the study excluded consumption out of common property and the value of public services provided to the poor. For results of the regression exercise, see Michael Lipton, Successes in Anti-Poverty, Issues in Development: Discussion Paper 8, Development and Technical Cooperation Department (Geneva: International Labour Office, 1996), p. 11.

[43] Ibid., p. 16.

[44] Except as otherwise indicated, this section is based mainly on Lipton and Ravallion, loc. cit. (1995), pp. 2586-2589, and Lipton, op. cit. (1996), pp. 69-70.

[45] See I. Jazairy, M. Alamgir and T. Panuccio, The State of World Rural Poverty: An Inquiry into its Causes and Consequences (New York: New York University Press, 1992).

[46] Mayra Buvinic', "The Feminization of Poverty? Research and Policy Needs" in José B. Figueiredo and Zafar Shaheed, Reducing Poverty Through Labour Market Policies (Geneva: International Labour Organization, 1995), pp. 133-154.

[47] As an example of the economic impact of cultural discrimination against women, credit programmes often exclude women because they cannot provide collateral in the form of secure property rights to land.

[48] M. A. Fakhro, "Poverty in the Arab World", in UNDP, Preventing and Eradicating Poverty: Report on the Experts' Meeting on Poverty Alleviation and Sustainable Livelihoods in the Arab States (1996).

[49] Some of the linkages among education, productivity and economic growth have been surveyed by T. P. Schultz in Handbook of Economic Development, vol. I, Elsevier Science Publishers B.V., 1988, chap. 13. See also United Nations, Global Outlook 2000.

[50] Jamison and Lau (1982), as cited in Lipton (1996), pp. 69-70.

[51] World Bank (1990) and T. P. Schultz (1988), among others, have summarized the available evidence on education and growth.

[52] See Lipton (1996), p. 70, for a discussion of evidence of good returns to education and cost-effective poverty reduction through education.

[53] This section is based mainly on Lipton and Ravallion (loc. cit., 1995, pp. 2599-2602).

[54] The following rural-to-urban poverty incidence ratios were calculated by Lipton and Ravallion (loc. cit., 1995, p. 2599), based on data reported in the World Development Report, 1990, p. 31: Kenya 6.0; Côte d'Ivoire 4.6; Ghana 2.2; Indonesia 3.7; Malaysia 2.5; Thailand 1.7; Philippines 1.4; Panama, Peru and Venezuela 1.4 each; Guatemala and Mexico each 1.3; India 1.1. Even in India, the vast majority of the poor are rural, because most of the population as a whole still live in rural areas.

[55] This section is based mainly on Lipton (1996), pp. 73-75, and Lipton and Ravallion, loc. cit. (1995), pp. 2600-2601.

[56] See also United Nations, Housing and Economic Adjustment, 1988.

[57] See, for example, FAO, The State of Food and Agriculture, 1995 (Rome: FAO, 1995), pp. 65-69; FAO, "Food Security and Nutrition", World Food Summit, Technical Paper No. 9, provisional version (Rome: FAO, June 1996), pp. 24-26, 30; Michael Lipton and Martin Ravallion, Poverty and Policy; in J. Behrman and T. N. Srinivasan (eds.), Handbook of Development Economics, vol. 3B (Amsterdam: North-Holland, 1995), pp. 2551-2657; Per Pinstrup-Andersen, "Targeted Nutrition Intervention", Food and Nutrition Bulletin, vol. 13, No. 3 (September 1991),

pp. 161-169; and Joachim von Braun (ed.), Employment for Poverty Reduction and Food Security (Washington, D.C.: IFPRI, 1995).

[58] For an analysis of famine and its prevention see United Nations, World Economic Survey, 1993 (United Nations publication, Sales No. E.93.II.C.1), chap. VI. The classic reference on the analysis of famines is Amartya Sen, Poverty and Famines: An Essay on Entitlement and Deprivation (Oxford, Clarendon Press, 1981).

[59] This section is based mainly on the discussion in Michael Lipton, "Successes in anti-poverty". Issues in Development, Discussion Paper No. 8 (Geneva, ILO, 1996), pp. 25-42.

[60] D. Vittas and Y. J. Cho, "Credit policies: lessons from East Asia", Policy Research Working Paper 1458 (Washington, D.C., World Bank, 1995).

[61] Lipton, op. cit. (ILO, 1996), pp. 63-64.

[62] Ibid., pp. 63-65.

[63] This discussion of public works is adapted from Lipton, op. cit. (ILO, 1996), pp. 43-47.

[64] There is a potential for corruption and arbitrariness in public infrastructure programmes. Favouritism, discrimination and corruption may enter into the selection of public works crews, especially when an intermediate labour contractor has control in the local labour market.

[65] M. Ravallion, "Employment guarantee schemes: Are they a good idea?", in Indian Economic Journal, 1991, as cited in Lipton, op. cit. (ILO, 1996), p. 45.

[66] Current issues in social security policies, many of which are relevant to the question of safety nets, were recently reviewed in chapter 15 of the United Nations World Economic and Social Survey, 1995. The present discussion is therefore only a brief summary of several issues particularly relevant for the reduction of poverty.

[67] The 1993 United Nations System of National Accounts distinguishes between social assistance and social insurance, based on the source of the funds. "Social assistance benefits" refer to transfers made by Governments to households, outside of any social insurance scheme. Social security benefits, in contrast, are social insurance benefits paid to households out of social security funds. System of National Accounts, 1993 (United Nations publication, Sales No. E.94.XVII.4), chap. VIII, sects. D, E and F.

[68] The safety net role of social security was reviewed in the United Nations Report on the World Social Situation 1993, chap. 11. That chapter concluded that in developing countries social security is provided largely by families and voluntary agencies and that government services tend to benefit those in the higher income brackets. Current issues in social security policy were discussed in chapter XV of the World Economic and Social Survey, 1995.

[69] Malaysia has voluntary schemes for domestic workers and the self-employed; Tunisia has schemes against work injuries for the self-employed; the Republic of Korea has schemes for employees of firms with fewer than five workers and for the self-employed (including farmers and fishermen). In Mexico all persons not covered by old age, disability and death benefit programmes sponsored by the Government are allowed to affiliate themselves on a voluntary basis. See United States, Social Security Administration, Social Security Programs Throughout the World, 1993 (Gopher version) (Washington, D.C., 1993).

[70] For a discussion of the limitations of the formal model of social security for many developing countries, see S. Guhan, "Social security options for developing countries", in ILO, Reducing Poverty Through Labour Market Policies, José B. Figueiredo and Zafar Shaheed, eds., International Institute for Labour Studies, New Approaches to Poverty Analysis and Policy, vol. II (Geneva, ILO, 1995), pp. 91-92.

[71] See M. Bligh and M. Weethalle, The Causes of Graduate Unemployment in India (London, Penguin Press, 1969).

[72] For an extensive discussion of the issue of providing support for the ageing, see The World Bank, Averting the Old Age Crisis (New York, Oxford University Press, 1994).

Chapter VII

UNEMPLOYMENT

1. One of the major themes of the World Summit for Social Development was the importance attached to the problem of unemployment and the widespread achievement of productive employment. The attention devoted to these issues is warranted given that employment is the primary source of personal and family income for most people and a significant determinant of social cohesion, and the expansion of employment is a major contributor to economic growth.

2. Half a century ago, a feeling of optimism that unemployment could be minimized was emerging. The United Nations Charter mandated the right of individual's productive employment, and many developed economies adopted policies and mandates to achieve full, or at least high, levels of employment. The centrally planned economies achieved full employment as the Government employed all citizens not otherwise employed who were willing and able to work. Stimulated in part by the removal of colonial ties, developing countries and international organizations developed policies and programmes designed to foster growth and employment.

3. Since the 1970s, the situation has changed. In the developed economies changes in the technology and organization of production and a slower rate of productivity and real output growth have made the achievement of low unemployment in a non-inflationary environment much more difficult than had been anticipated. Developed countries have found it difficult to formulate policies to effectively deal with both unemployment and inflation; they have also been hampered by a slowdown in productivity growth that has affected all developed economies. Inefficiencies in centrally planned economies led to stagnation in incomes. And while a few developing economies were able to achieve high levels of employment in the context of rapid growth and industrialization, most have struggled to find the appropriate mix of policies. Thus, throughout the world, solving the problem of unemployment appears more difficult today than it did 50 years ago.

4. All three types of economies have been undergoing substantial structural changes. This is clearest in the formerly centrally planned economies, now in the midst of a transition to market-based systems in which wages and employment are determined by market forces. Unemployment has risen and income inequality has widened as countries search for new institutional arrangements and policies. Many developing countries are also in the midst of transformations, as outward-oriented policies and the greater reliance on international markets for goods, services, capital and technology have subjected domestic labour markets to greater international pressures.

5. Meanwhile, awareness of the role of labour markets in determining patterns of employment, unemployment and real wages has grown. The function of labour markets is to balance supply and demand in a manner that promotes economic efficiency. Yet constraints - sometimes the result of actions by Governments, sometimes caused by private activities - often inhibit labour markets. Markets may also fail to reach potential participants because of high costs,

geographical immobility or imperfect access to information. And the results of market activities may violate a society's concepts of equity, as policy makers confront the difficulty of devising policy instruments that address equity concerns while simultaneously preserving the structure of incentives needed to obtain efficient outcomes.

6. These issues have surfaced in the developed, developing and transition economies. In developed economies the apparently adverse impact of safety nets on incentives has led to policy initiatives designed to reduce the scope of protections available to unemployed and discouraged workers. In developing economies the incompleteness of labour markets in rural areas and the emergence of extensive informal economies has been widely noted. In transition economies the development of private sector labour markets has highlighted many of their structural characteristics.

7. At the same time that unemployment has emerged as a problem and the effectiveness of labour markets has emerged as a policy issue, employment has grown substantially. The re-emergence of unemployment as a focus of policy should not obscure the fact that the world economy continues to absorb the bulk of a rapidly rising global labour force, which is better educated, possesses greater skills and is more mobile than at any time in the past. Approaches to solving the problem of unemployment need to be formulated in the context of rapid changes in economic conditions and in the quantity and quality of labour.

A. Employment and unemployment in the developing countries

1. The labour force and employment

8. ILO estimates the world labour force at about 2.7 billion workers in 1995, of which 78 per cent reside in developing countries. As a result of both demographic factors and behavioural changes that affect participation rates, developing countries' share in the total world labour force is expected to continue to increase, reaching 81 per cent by 2010, or 2.8 billion workers (see table 7.1). Developing countries thus face an enormous challenge in creating employment opportunities for their citizens as some 47 million persons join the labour force each year in these countries. The average annual rate of growth of the labour force in developing countries is expected to slow from 2.2 per cent (over the 1950-95 period) to 1.9 per cent over the next 15 years, largely as a result of the dramatic decline in fertility rates in China and the decline in population growth in Latin America and the Caribbean. Labour force growth is expected to accelerate in Africa, West Asia and Central and South Asia between 1995 and 2010.[1] Excluding China, labour force growth is projected to increase slightly over the next 15 years.

Table 7.1 World labour force, by region and income group, 1950, 1995 and 2010

Income group or region	Number of workers (15-64) (millions)			Percentage of total			Average annual rate of growth (percentage)	
	1950	1995	2010	1950	1995	2010	1950-1995	1995-2010
World	1 183	2 742	3 475	100	100	100	1.89	1.59
Developed countries	248	408	433	21	15	12	1.11	0.40
Economies in transition	129	204	220	11	7	6	1.02	0.50
Developing countries	814	2 128	2 821	69	78	81	2.16	1.90
of which:								
Asia	654	1 621	2 074	55	59	60	2.04	1.66
China	317	729	827	27	27	24	1.87	0.84
East Asia	22	39	47	2	1	1	1.28	1.25
Central-South Asia	211	562	796	18	20	23	2.20	2.35
South-east Asia	85	232	314	7	8	9	2.26	2.04
West Asia	18	56	85	2	2	2	2.55	2.82
Africa	102	308	475	9	11	14	2.49	2.93
North Africa	13	47	73	1	2	2	2.90	2.98
Sub-Saharan Africa	89	261	402	8	10	12	2.42	2.92
Latin America and Caribbean	58	198	272	5	7	8	2.77	2.14
Memo:								
Developing countries excluding China	497	1 399	1 994	42	51	57	2.33	2.39

Source: ILO, *Bulletin of Labour Statistics 1996-1* (Geneva, International Labour Organisation), pp. xviii-xxii.

9. Changes in the labour force reflect changes in both demographic factors and participation rates. While fertility rates have been declining in much of the developing world, improved health conditions have allowed a greater number of people to reach working age. Labour force participation rates for men have remained relatively constant or even dropped, while female participation rates have increased and are projected to increase further in the near future. Data at the country level suggest that this phenomenon is spreading throughout the developing world, even in countries in which female participation in economic activities has not been recognized or encouraged.[2] As a result of this trend, the female share in developing countries' labour force is expected to reach 40 per cent by 2010. Among the developing regions, the female share in the adult labour force is highest in Africa and Asia where women work in traditional activities such as agriculture (see table 7.2).

10. The age composition of the labour force has also changed, with participation rates by younger workers (aged 10 to 24 years), falling particularly for the youngest workers (aged 10 to 14). Thanks to increased access to schooling the participation rate of this age group is equal to or approaching zero in several developing countries, including Algeria, Barbados, Cuba, Chile, Jamaica, the Republic of Korea, Kuwait, Libya, Sri Lanka and the United Arab Emirates. Child labour persists in several countries, however, in some cases under adverse conditions (see below). Significant declines have also been registered within the 15- to 19-year-old group, although this decline has been modest in sub-Saharan Africa and in low-income countries. Relatively higher income levels and the existence of a generalized formal pension system seem to be positively correlated with the fall in participation rates by older workers in some countries.[3] While participation rates by older workers (aged 65 and older) fell by 50 per cent in countries such as Algeria, Argentina, Brazil, Chile, Cuba, Egypt, Hong Kong Province of China, Israel, Morocco, the Republic of Korea, Tunisia and Uruguay over the past 30 years, they remained relatively high in Bolivia, the Central African Republic, the Gambia, Ghana, Kenya, Haiti, Liberia, Myanmar, Nepal, Niger and elsewhere.

11. Labour markets in developing countries differ from labour markets in the developed economies. Despite the changes in the structure of production in the past several years (see figures 7.1 and 7.2), a significant share of the labour force in developing countries - about 60 per cent - is still engaged in agricultural activities. Although any aggregate figure inevitably conceals country-level differences, in general the share of the labour force employed in agriculture is usually higher in developing than in developed countries (see figure 7.3). Another salient feature of labour markets in developing countries is the low incidence of wage labour. Even if agriculture - a sector in which subsistence activities can be dominant - is excluded, the share of wage employment in services and industry is lower in developing than in developed countries (see figure 7.4). Finally, the family enterprise constitutes the most common form of production organization not only in agriculture but also in the non-agricultural sector, explaining in part the relatively widespread use of non-wage employment practices in developing countries.

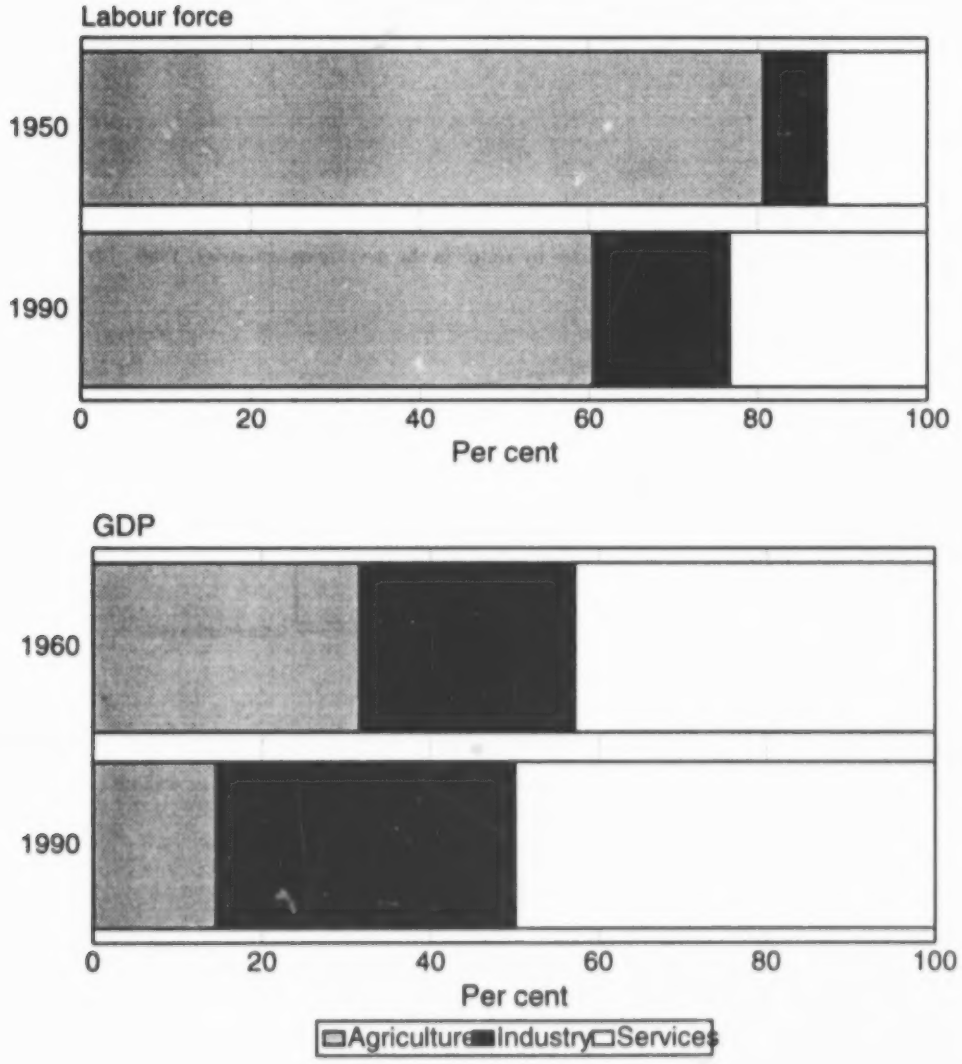
Table 7.2 Gender composition of labour force by region and income groups, 1950, 1995 and 2010

(Percentage)

Income group or region	1950		1995		2010	
	Male	Female	Male	Female	Male	Female
World	65	35	60	40	59	41
Developed countries	70	30	57	43	55	45
Economies in transition	54	46	53	47	53	47
Developing countries	66	34	61	39	60	40
of which:						
Asia	65	35	60	40	60	40
China	60	40	55	45	55	45
East Asia	68	32	58	42	56	44
Central South Asia	72	28	68	32	66	35
South-east Asia	64	36	57	43	56	44
West Asia	68	32	71	29	67	33
Africa	62	38	60	40	59	41
North Africa	94	6	71	29	66	34
Sub-Saharan Africa	57	43	58	42	57	43
Latin America and Caribbean	82	18	67	33	64	36

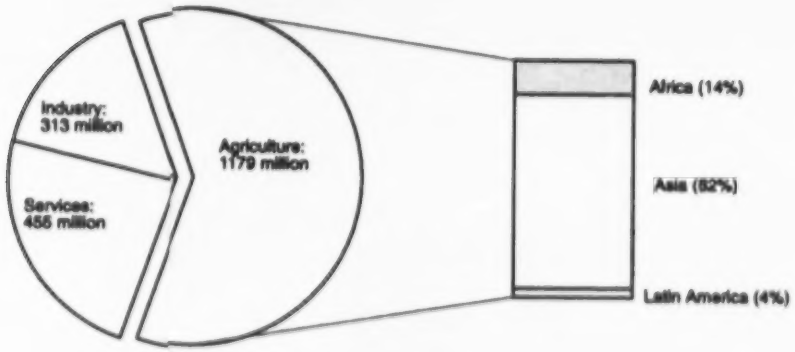
Source: ILO, *Bulletin of Labour Statistics 1996-1* (Geneva, International Labour Organisation), pp. xviii-xxii.

Figure 7.1 GDP and labour force by economic activity in the developing countries



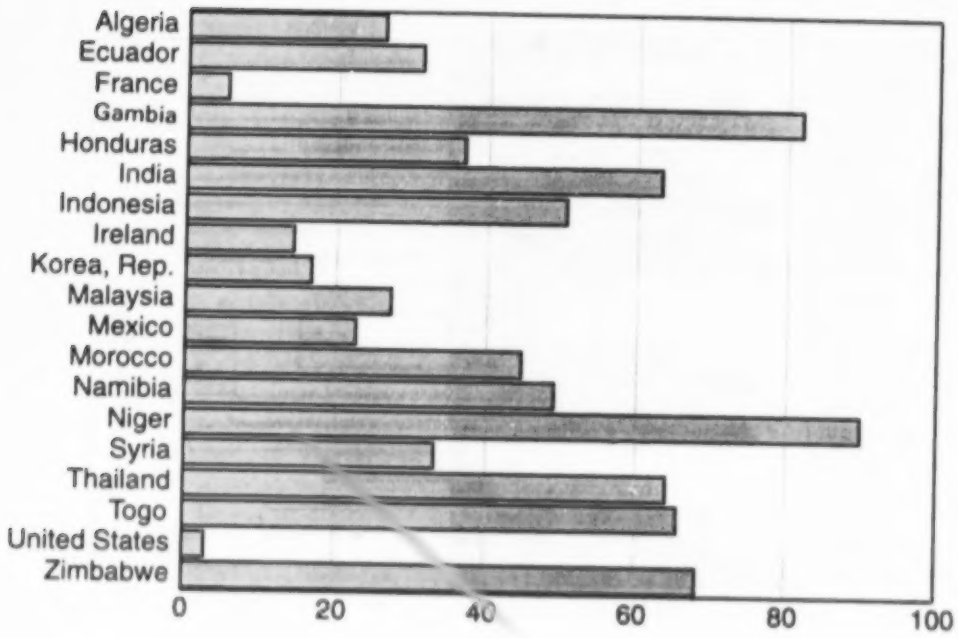
Sources: ILO and UNCTAD.

Figure 7.2 Distribution of labour force by sector in the developing countries, 1990



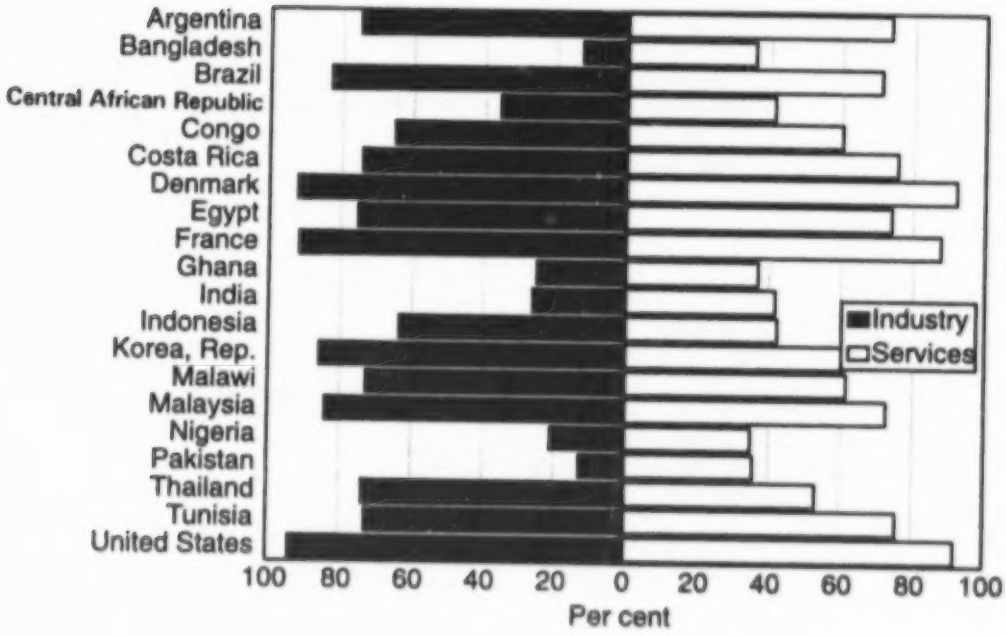
Source: E. Denti and E. Ruhumuliza, "Evolution de la population active de 1950 a 1995 et previsions pour l'an 2010", *Bulletin of Labour Statistics*, 1996-1 (ILO, Geneva 1996).

Figure 7.3 Share of workforce in agriculture in selected countries, early 1990s (percentage)



Source: D. Filmer, *Estimating the world at work*, World Bank Policy Research Working Paper No. 1488 (July 1995).

Figure 7.4 Share of wage employment in industry and services in selected countries, late 1980s-early 1990s (percentage)



Source: D. Filmer, *Estimating the world at work*, World Bank Policy Research Working Paper No. 1488 (July 1995).

12. The nature of employment in developing countries is thus very different from that in developed countries. Although a "modern" or "organized" sector - made up of medium- and large-sized enterprises, the public sector, modern agriculture, professional services, and other enterprises - does exist, but it usually absorbs a small share of the total labour force. Most workers in developing countries are not affected by existing labour legislation, are not subject to minimum wage guarantees and do not enjoy the benefits of the protection offered by formal social security arrangements. Moreover, the nature of the unemployment problem in developing countries is different from that in developed countries. In contrast to developed countries, where urban open unemployment is the most serious problem, developing countries suffer primarily from underemployment and poverty particularly in rural areas. This applies to countries independently of the degree of land concentration. Most rural Africans, for example, are small-plot holders engaged in subsistence agriculture, who face poverty because of low returns and declines in productivity (see chap. VI). In Asia and Latin America, agricultural wage labour is more prevalent and is growing. Given the seasonal character of agricultural activities, however, many workers are unemployed or underemployed for long stretches of time. When employment in local labour markets is not found, households holding land can work their own plots. This is one reason why open unemployment is usually low in rural areas. Labour resources will not be employed productively, however, because the use of additional labour inputs in the presence of fixed land resources will eventually lead to a decline in the marginal product of labour and to lower incomes. For the landless peasant migration is an option, and many migrate to the cities, where they end up in the urban informal sector. Those who remain in the rural areas can engage in non-farm activities. In several countries, most notably China, off-farm work provides an important income complement (and sometimes the main source of income). At the regional level, the share of the rural labour force primarily employed in non-farm activities ranges from 19 per cent in Africa to 36 per cent in Asia and 47 per cent in Latin America.[4]

13. Economic theory has traditionally characterized labour markets in developing countries as being segmented and with limited mobility across segments. Labour markets have been perceived as exhibiting rigidities - as a result of prevailing institutional arrangements and the massive presence of the state as an employer, which prevent the efficient allocation of labour resources and greater labour absorption. This traditional view has evolved. Given the above characteristics of labour markets in developing countries, it is now suggested that rigidities may affect only some of its segments, particularly the urban formal sector. But even this statement may require some qualification as will be discussed in the section on structural reforms presented below.[5] Many labour market segments exist in these countries,[6] and the specific characteristics of rural and urban labour markets (both the formal and informal sub-segments) imply that they may operate in different ways, although links between and some mobility across the different segments exist.

14. In agricultural labour markets, for instance, various arrangements are used, including sharecropping, permanent or temporary contracts and "spot" markets for daily or casual labourers. Some of these arrangements affect the allocation of the rural labour force whether or not workers hold a plot of land. Workers may participate in more than one segment of the rural labour market.

Small farm households, for example, are a source of both supply of and demand for labour.[7] This can be explained in part by the seasonal character of agriculture, by the size of the plot and by the number of household members. Small households occupying relatively large plots tend to hire labour while large households on smaller plots tend to supply labour locally. Participation in more than one segment of the labour market also reflects the survival strategies of households in the face of possible crop failure and the absence of insurance markets. For hired labour, employment and wage risk is significant. Given the household survival strategy, some of its members may be sent to work as permanent workers (holding long-term "contracts"), while others may be employed as daily labourers.[8]

15. Mobility between the rural and urban labour markets also exists. The rural labour force has traditionally been a source of labour supply to urban markets. But the flow also takes place in the opposite direction; from cities to the farm. In Latin America, for example, the expulsion of resident workers from the farms, their relocation in towns and the increase in hiring of temporary workers led to a process of urbanization of the agricultural labour force, which now supplies the rural market. Additionally, remittances from urban workers to family members in rural areas may also have an impact on the functioning of rural markets by affecting the supply of labour in these areas. The temporary nature of agricultural work has implied that the temporary agricultural workers living in the cities also participate in the urban labour market. This has contributed to a greater integration between the two markets in Latin America and, consequently, a narrowing of the gap between agricultural and non-agricultural wages in some countries in the region.[9]

16. Within the urban labour market there are links between the informal and formal sectors. The deterioration of real wages in the formal sectors of some developing countries during the 1980s has led some workers to participate in both markets. The volatile size of the informal sector, which expands with the deterioration of economic conditions and contracts during the periods of prosperity, may be indicative of some integration between the sectors.

17. The generation of productive employment requires economic growth. In developing countries economic growth has been determined by the domestic policies adopted by their Governments and by the severity of the exogenous shocks to which these economies have been exposed. East and South-East Asia were able to recover quickly from the depressed economic conditions of the early 1980s; Africa and Latin America, which faced larger macroeconomic imbalances, a severe external debt crisis and structural constraints, have taken a longer time to recover. In sub-Saharan Africa, despite acceleration in GDP growth in 1995 and 1996, economic recovery is still to be consolidated. In Latin America, painful austerity measures recently adopted to regain control over external accounts, have had a negative impact on output and employment.[10] In China, where policies supporting the development of the non-state sector were adopted, employment creation has been impressive, with about 90 per cent of the non-farm employment created between 1991 and 1994 originating in the non-state sector.

18. Employment-related data are notoriously unreliable and scarce, making international comparisons difficult (see box 7.1). Yet if carefully interpreted these data can provide some indication of current trends in employment creation in developing countries. The data presented in table 7.3 reveal a faster rate of employment creation in several developing countries, in the early 1990s, when growth rates rose. In Africa, however, employment generation seems to have declined during the late 1980s and early 1990s reflecting poor economic performance during the period. However, employment data for most African countries refer to wage or salaried employment and therefore exclude employers, self-employed or own-account workers and unpaid family workers, among others. These data cannot, therefore, be compared with data from countries in other regions. Yet, the African data do reveal the decline in the relative importance of the formal sector as a source of employment growth - a pattern exhibited in other developing countries as well.

Box 7.1 Defining and measuring unemployment

The internationally accepted definition of involuntary unemployment, formulated by the International Labour Organization (ILO), considers an individual to be unemployed if he or she is currently without employment, is actively seeking employment and is available for employment within some time period mutually acceptable to both the prospective employee and a prospective employer. Governments use three primary methods to measure unemployment, with some countries basing official estimates of unemployment on more than one source of information.[a]

Many countries use sample surveys to gather information on the employment status of individuals. Labour force surveys yield data on the number of unemployed workers and the total labour force, thus yielding information on both components of the unemployment rate. Well-designed surveys are generally thought to provide better coverage of employment and unemployment than other methods, but they are expensive to design and carry out. Surveys that preserve respondents' anonymity are likely to be most successful in measuring employment and unemployment in the informal sector, where many workers prefer not to be identified.

Estimates of unemployment are also derived from data on people registered with agencies dispensing unemployment insurance. In some countries trade union benefit funds are also used as a source of information on the unemployed. Since these sources count only people who are eligible to receive compensation the estimates are not as representative of the population as labour force surveys.

A third method is to calculate the number of unemployed by looking at data on job applicants who register with employment offices. As with data derived from unemployment compensation rolls, the representativeness of this sample is questionable. In countries in which employment offices are more effective in matching job seekers with jobs a higher portion of the unemployed are likely to register. Moreover, employment offices are likely to reach a higher proportion of the unemployed in cities than in rural areas, so that agricultural unemployment is more likely to be undercounted than manufacturing unemployment.[b]

The different methods of calculating unemployment can yield different results. For the spring quarter of 1996, for example, the Labour Force Survey showed a rise in total unemployment in the United Kingdom of 11,000, while an estimate derived from unemployment insurance data indicated a decline in unemployment of 46,000 over the same period. The difference was explained by the fact that some unemployed workers no longer claimed benefits because their eligibility terminated or because they stopped looking for jobs.[c] In economies in transition, data on unemployment levels collected from labour force surveys can exceed measures of unemployment estimated from data collected by employment offices by a factor of 3 or more.

Differences in the effectiveness of data collection methods suggest that cross-country comparisons of unemployment rates should be undertaken with caution. Changes in the effectiveness of data collection and processing and changes in conditions of eligibility for unemployment compensation or access to placement facilities may also affect the comparability over time of data from a single country.

Data on unemployment are also affected by definitional issues. Part-time employment, for example, even if brief and involuntary, is counted as full-time employment. Discouraged workers, who are no longer actively searching for employment, are not counted as unemployed or included in estimates of a country's labour force. And people in education or training programmes are excluded from the labour force because they are not available for employment. In many instances, however, participation in a training programme reflects a prior unsuccessful job search and a decision to obtain new or upgraded skills. Some governmental statistical agencies collect data on involuntary part-time workers and discouraged workers and breakout the unemployed by the duration of unemployment.[d] In addition, some private researchers have emphasized the existence of disguised unemployment, which includes people working at jobs for which they are overqualified.[e]

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[a] International Labour Office, Bulletin of Labour Statistics, 1996-1, pp. 39-40.

[b] United Nations, World Economic and Social Survey 1994 (United Nations publication, Sales No. E.94.II.C.1), box VI.2, "Principal methods for collecting unemployment and vacancy statistics", pp. 159-160.

[c] World Economic and Social Survey 1994, box VI.3, "Measuring open unemployment in developing countries", p. 180. "More jobs, higher pay", The Economist, 14 September 1996; International Labour Office in World Labour Report 1995, chapter 1, International Labour Office, "Controversies in labour statistics" (Geneva 1995), pp. 11-30.

[d] Constance Sorrento, "International unemployment indicators, 1983-1993", Monthly Labour Review, vol. 118, No. 8 (August 1995), pp. 31-50; John E. Breggar and Steven E. Haugen, "BLS introduces new range of alternative unemployment measures", Monthly Labour Review, vol. 118, No. 10 (October 1995), pp. 19-26.

[e] John Eatwell, "Disguised unemployment: The G7 experience", UNCTAD Review (1995), pp. 67-90.

Table 7.3 Employment index in selected developing countries, 1987 and 1992-1994

Country or area	1987	1992-1994
Asia		
Bahrain[a]	85	109
China	117	136
Jordan[b]	140	217
Hong Kong Province of China[c]	106	115
India[d]	108	..
Indonesia	122	135
Israel[c]	104	139
Malaysia	114	141
Pakistan	111	128
Philippines	112	135
Republic of Korea	114	138
Singapore	105	145
Sri Lanka[e]	55	66
Thailand[f]	121	136
Latin America		
Colombia	119	167
Costa Rica	..	169
Chile[c]	108	134
Guatemala	111	135
Jamaica	116	124
Mexico[c, e]	106	150
Nicaragua[e]	160	110
Panama	121	149
Uruguay[g]	117	124
Venezuela	116	143
Africa		
Algeria[h]	119	125
Benin[e]	106	76

Country or area	1987	1992-1994
Botswana[a]	150	227
Burundi[a, h]	101	91
Central African Republic[a, i]	105	77
Côte d'Ivoire[j, i]	91	86
Ghana[a, h]	141	66
Kenya[a, h]	121	138
Niger[a, h]	109	94
Senegal[k, h]	74	112
South Africa[a]	101	96
Togo	142	139
Zimbabwe[a]	103	120

Source: International Labour Office, Yearbook of Labour Statistics (Geneva, ILO, various issues).

Note: Data for Benin, Niger, Togo, Guatemala, Mexico, Nicaragua, and Bahrain are based on social insurance statistics. Data for Botswana, Ghana, Kenya, Senegal, Zimbabwe, South Africa and India are based on establishment surveys. Chinese data reflect official estimates. Data for all remaining countries are based on labour force or household sample surveys.

Index: 1982 = 100.

[a] Private sector.

[b] Persons engaged in non-agricultural activities.

[c] 1985 = 100.

[d] Non-agricultural.

[e] Employees.

[f] 1983 = 100.

[g] Urban areas.

[h] 1991.

[i] 1990.

[j] Modern sector.

[k] 1096 = 100.

19. Although economic growth is a prerequisite of employment generation, GDP growth per se does not imply that jobs are being created rapidly enough to absorb new entrants to the labour force and to reduce existing unemployment levels nor does GDP growth ensure that the jobs created are compatible with the quality and quantity of labour skills available and can provide workers with a minimum acceptable standard of living. In fact, some studies have suggested that employment growth does not follow the same pattern as GDP growth and that the labour intensity of GDP growth in developing countries has been declining.[11] This issue remains unresolved. A recent ILO report found no evidence of "jobless" growth in developing economies, although it did find evidence of negative growth of labour productivity in some of these countries.[12]

2. A regional perspective on unemployment

20. Estimates of open unemployment in developing countries, presented in table 7.4, reveal differences across countries. In general, unemployment is high in developing countries. Given the absence of unemployment insurance and formal social security programmes in most of these countries unemployment has a direct impact on poverty levels and represents a double burden for households and informal safety nets in that income is foregone and must be provided.

21. East and South-East Asian economies currently experience relatively stable and low rates of unemployment. In Hong Kong Province of China, the Republic of Korea and Singapore, for example, unemployment is much lower than it was 10 or 15 years ago. In fact, rapid GDP growth in South-East Asian countries has produced near full-employment and rising real wages. As a result, demand for foreign labour has risen in some Asian countries which have also become a source of foreign direct investment within the region as production is shifted into neighbouring countries with more abundant supplies of lower-cost labour.[13]

22. The unemployment situation is less clear in South Asia. The adoption of structural reforms in India, including the abandonment of industrial policies that offered incentives for capital-intensive industries, led to an acceleration in employment creation, which may have reduced unemployment in urban areas.[14] In Pakistan, unemployment has increased in part as a consequence of reduced migration because of economic changes in the traditional-labour receiving countries of West Asia. In Sri Lanka unemployment remains high. In China urban unemployment has increased slightly in recent years as a result of the ongoing process of restructuring the state sector (see below).

23. In the Middle East and North Africa, unemployment has been tied to the economics of oil, the health of public finances and the possibilities of migration.[15] With the decline in oil prices in the mid-1980s, Governments in the region have been forced to adopt tight fiscal policies and reduce spending. Given the dominance of the public sector in total employment creation, reductions in public expenditure implied shrinking job opportunities. In the labour-sending countries (Egypt, Jordan and Yemen) difficulties were compounded by tighter migration policies in receiving countries and by the return of migrants in the early 1990s as a result of the Gulf War. The unemployment rate in Yemen was estimated at 30 per cent in 1995. In Jordan, contrary to expectations, the level of unemployment declined somewhat in 1992 following the

Table 7.4 Open unemployment in selected developing countries, 1980, 1985, 1990 and 1994-95
(Percentage of labour force)

Country or area	1980	1985	1990	1994-95
Asia				
China [a]	4.9	1.8	2.5	2.8
Hong Kong Province of China	4.3	3.2	1.3	1.9
Republic of Korea	5.2	4.0	2.4	2.4
Philippines	4.8	..	8.1	9.5
Thailand	0.8	..	3.9 [b]	3.6 [c]
Israel	6.0	6.7	9.6	7.8
Pakistan	..	3.7	3.1	4.7
Singapore	3.0	4.1	1.7	2.6
Sri Lanka	..	..	14.4	13.6
Africa				
Algeria	..	..	19.7	23.8 [c]
Egypt	5.2	..	8.6	9.0 [c]
Morocco	..	..	15.4	16.0 [c]
Niger	38.4 [d]	56.3	48.6 [b]	..
Latin America [a]				
Argentina	2.3	5.3	7.5	18.6
Bolivia	5.8	18.2	9.5	5.8
Brazil [e]	6.3	5.3	4.3	4.7
Chile [f]	11.8	17.2	6.5	5.6
Colombia [g]	9.7	14.1	10.5	8.6
El Salvador	..	..	10.0	7.5
Guatemala [h]	..	12.0	6.5	4.3
Mexico	4.5	4.8	2.7	6.4
Nicaragua [h]	..	..	11.1	20.2
Panama	10.4	15.6	16.8	14.3
Peru [i]	7.1	10.1	8.3	8.2
Uruguay [j]	7.4	13.1	9.3	10.7
Venezuela	6.6	14.3	11.0	10.3

Sources: ECLAC, Balance preliminar de la economía de América Latina y el Caribe 1995 (Santiago, ECLAC, December 1995) and International Labour Office, Yearbook of Labour Statistics (Geneva, ILO, various issues).

Note: Data for Pakistan, Niger and Guatemala are based on employment office statistics. Data for China and Nicaragua are official estimates. All others are based on labour force or household sample surveys.

[a] Urban areas only.
[b] 1989
[c] 1992
[d] 1992
[e] Metropolitan areas of Rio de Janeiro, Sao Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife.
[f] Santiago metropolitan area.
[g] Bogotá, Barranquilla, Medellin, Cali, Bucaramanga, Manizales and Pasto.
[h] Country total.
[i] Metropolitan Lima.
[j] Montevideo.

return of migrants, who invested their savings in the domestic economy (mainly in construction and in small businesses), thus increasing the demand for labour. However, unemployment rate in Jordan remains high (about 15 per cent in 1995). Unemployment is also high in Egypt (about 15 per cent in 1995) and is reported to be increasing in some of the labour-receiving Gulf Cooperation Council (GCC) countries as well.[16] Obviously, there are exceptions to this general trend. In Israel unemployment has risen as a result of the influx of immigrants from Ethiopia and the former Soviet Union. Tunisia's economic diversification and increasing private sector participation in the economy have also placed the country outside the general description given above. Unemployment also remains high in Tunisia, where it is estimated at 16 per cent in 1993.[17]

24. Unemployment declined in Latin America during the first half of the 1990s, as the region partially recovered from the contraction that took place in the local labour markets as a consequence of economic developments and policies adopted in the 1980s. As in other developing regions, trends in unemployment seem to be linked to the timing of reforms. Countries that reformed early now seem to face more comfortable labour market conditions than do countries that reformed later. Unemployment remains high in several countries in the region, however (see table 7.4), and some of the earlier gains were lost in 1995 suggesting that macroeconomic discipline has to be constantly maintained in order to minimize eventual employment and output losses brought about by external shocks. In Mexico and Argentina, for example, renewed austerity efforts in view of the temporary interruption of financial flows to the region by the end of 1994/early 1995 led to a dramatic increase in unemployment.[18] Unemployment data for sub-Saharan Africa are scanty but the evidence seems to suggest that persistent economic stagnation, import constraints and restructuring of the public sector caused urban unemployment in the region to remain severed in the first half of the 1990s. The unemployment rate in Yaoundé, Cameroon, rose from 7 per cent in 1983 to about 25 per cent in 1993. In South Africa urban unemployment was estimated at 33 per cent in 1995, while unemployment rates in the capital cities of Burkina Faso, Guinea and Mali were reported to be above 16 per cent in 1991-92.[19]

25. Distressful as they are, these data understate the problem of unemployment in developing countries. Unemployment data refer only to active participants in the labour force, people either working or searching for work, and thus exclude discouraged workers, whose numbers tend to grow as unemployment increases. Official statistics on urban unemployment in China, for example, represent only the lower bound of unemployment estimates, because they do not include unemployed migrants, who do not have official urban residence registration.

26. Most unemployment rates refer to open urban unemployment and do not include either rural unemployment or the overall level of underemployment in the economy. Moreover, because the percentage of urban underemployed (that is, people working fewer hours than they are willing to) can be substantial, unemployment is actually much worse than these figures suggest. In greater São Paulo, Brazil, for example, open unemployment was estimated at 8.9 per cent in 1994. But adding "visible" underemployment of 5.4 per cent to this figure yields a rate of total unemployment of more than 14 per cent. Adding underemployment of 12.3 per cent to the 16.4 per cent rate of open unemployment in urban areas in Argentina yields a total rate of unemployment there of

28.7 per cent by the end of 1995. Urban underemployment was estimated at more than over 30 per cent in the Philippines in the early 1990s and at 42 per cent in Yaoundé, Cameroon, in 1993.[20]

27. Unemployment rates also fail to describe the circumstances of those working for meagre earnings and long hours in the urban informal sector. Good data on the informal sector are difficult to obtain. The sector itself is not easily defined and extremely fluid. About 60 per cent of the urban labour force in sub-Saharan Africa, 30 per cent in Latin America, 50 to 75 per cent in some South Asian countries and about 10 to 20 per cent in the newly industrialized countries in east and South-East Asia is estimated to work in the informal sector.[21]

3. Youth and female unemployment

28. Youth unemployment is a serious problem in several developing countries, where workers below the age of 24 constitute the bulk of the unemployed (table 7.5). The relative share of people seeking their first job, the majority of which are young workers and women, within the total unemployed population has increased over the past decade (figure 7.5). The data suggest that economies in many regions, particularly in Africa, have not been able to absorb new labour market entrants.

29. Unemployment also disproportionally affects the educated (table 7.6). It could be argued that higher unemployment among the educated workers reflects their preferences to remain unemployed rather than accept lower earnings or perform less socially acceptable jobs. Nevertheless, the economic restructuring taking place in most developing countries has contributed to reduced demand for educated labour, particularly in countries in which the public sector used to represent the main source of demand for such skills (see below).

30. The lack of employment opportunities among the highest-skilled labour and educated professionals may push them to leave the country in search of work abroad, thus leading to the phenomenon known as "brain drain". The Philippines is estimated to have lost more than 12 per cent and the Republic of Korea about 10 per cent of their trained professionals during the 1970s. About 500,000 highly educated professionals (mostly engineers and doctors) left India for the United States between 1972 and 1985. In Zimbabwe, 90 per cent of the newly graduated medical doctors have left the country since 1980. In several developing countries graduate students sent abroad on government scholarships never return because of adverse working conditions and limited job openings. The brain drain indicates a mismatch between demand for and supply of professionals and may suggest that fewer fiscal resources should be devoted to tertiary education. Although expatriate professionals remit part of their incomes, the cost of their education is not generally recouped, and their emigration represents a loss to their country of origin.[22]

Table 7.5 Male youth unemployment in selected developing countries

(Percentage of total male unemployment)

Country or area (year of data)	Age		
	15-19	20-24	15-24
Algeria (1992)	28	36	64
Bahrain (1994)[a]	40	34	74
Burkina Faso (1992)[b]	3[c]	28	31
Central African Republic (1993)[d]	4[c]	24	28
Chile (1994)	12	27	39
Colombia (1994)[e]	20	40[f]	60[g]
Costa Rica (1994)	26	21	47
Ecuador[h]	20	29	49
El Salvador (1994)[h]	18	22	40
Ethiopia (1993)	22	33	55
Hong Kong Province of China (1994)	11	19	30
Indonesia (1992)	22	44	66
Mauritius (1994)	2[i]	52[j]	54
Mexico (1993)	26	24	50
Nicaragua (1991)	13	16	29
Pakistan (1993)	24	20	44
Panama (1993)[k]	27	32	59
Philippines (1994)	19	27	46
Republic of Korea (1994)	6	22	28
Singapore (1994)	5	22	27
Trinidad and Tobago (1993)	15	21	36
Uruguay (1992)[h]	41	21	62
Venezuela (1993)	..	..	45

(Source and footnotes on following page)

(Source and footnotes to table 7.5)

Source: ILO, Yearbook of Labour Statistics 1995 (Geneva, International Labour Office).

Note: Data for Bahrain, Burkina Faso, Central African Republic, Ethiopia and Mauritius are based on employment office statistics. Nicaraguan data are based on official estimates. All others are based on labour force or household sample surveys.

[a] Private sector only.

[b] Four employment offices.

[c] 0-19.

[d] Bagui.

[e] Seven main cities in the country.

[f] 20-29.

[g] 15-29.

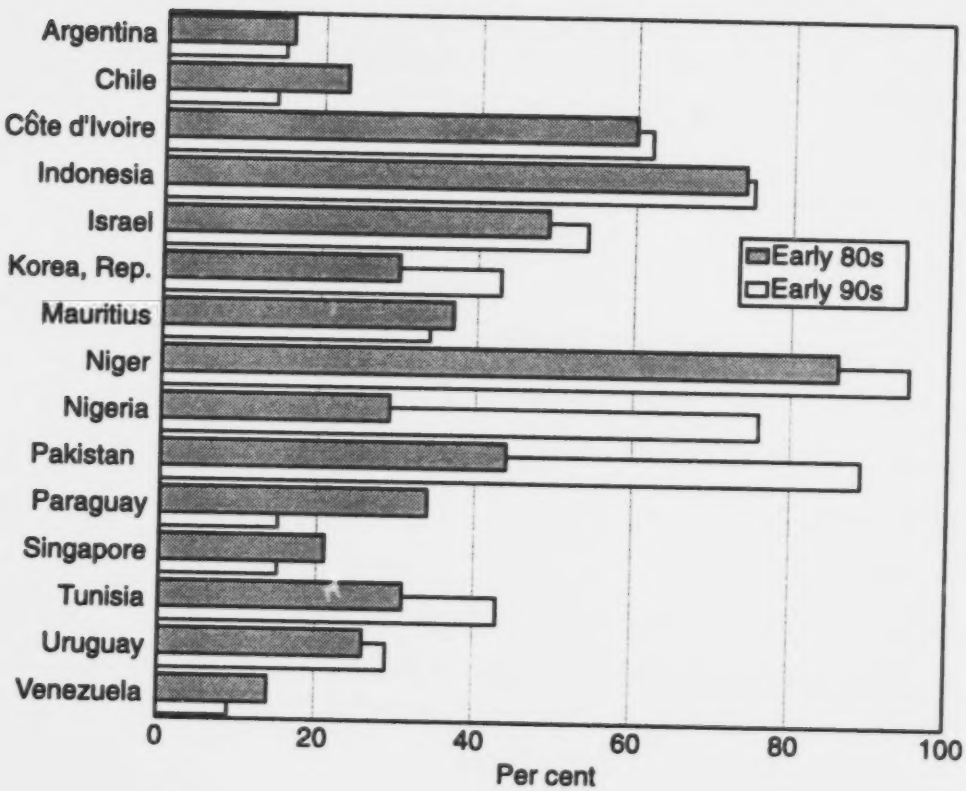
[h] Urban areas only.

[i] 15-17.

[j] 10-24.

[k] Excludes unemployed not previously employed.

Figure 7.5 Percentage of people seeking their first job in total unemployment, selected developing countries, early 1980s-early 1990s



Source: ILO, *Yearbook of Labour Statistics* (Geneva, ILO, various issues).

Table 7.6 Unemployment by level of education, selected developing countries, 1989-1991

(Percentage)

Country or area	Level of education			
	None	Primary	Secondary	Tertiary
Africa				
Algeria	9	27	29	..
Côte d'Ivoire	1	3	26	15
Morocco	4	17	26	23
Tunisia	11	20	17	5
Cameroon[a]	7	24	27	31
Latin America				
Colombia	8	8	12	8
Costa Rica	5	6	7	3
Guatemala	1	2	6	2
Mexico	3	3	3	2
Uruguay	3	6	11	8
Venezuela	6	9	10	7
Asia				
Hong Kong Province of China	2	2	2	2
Indonesia	0	1	8	8
Israel	9	11	12	6
Philippines	5	6	11	13
Republic of Korea	..	1	3	4
Singapore	2	3	1	2
Syrian Arab Republic	3	7	8	8

Source: International Labour Office, World Labour Report 1995 (Geneva, ILO, 1995).

[a] 1993.

31. Unemployment is usually higher among women than among men in developing countries; exceptions do exist as in Algeria, Hong Kong Province of China and the Republic of Korea (see table 7.7). Although female participation rates increased in the last decade, many new entrants were unable to find jobs. Women usually have different educational backgrounds than men. They have often less skills and lower educational attainment, which makes it more difficult for them to find employment. In some countries economic reforms affected negatively the supply of jobs available for women, particularly in the public sector. In other countries, however, women enjoyed greater employment opportunities in labour-intensive manufacturing, mainly in export processing zones (see box 7.2).

32. Formal employment openings are scarcer for women than for men. Lack of opportunities and other obstacles to wage employment have led women to seek employment in the informal sector in several countries.[23] Even in countries where firms are not averse to female participation in the labour market they may be reluctant to hire female workers because of the potentially higher costs associated with maternity leave and because of possible career interruptions by women with family responsibilities. (Discrimination against women is discussed in chap. VIII.)

Table 7.7 Male and female unemployment rates, selected developing countries

(Percentage)

Country or area (year of data)	Male	Female
Africa		
Algeria (1992)	24.2	20.3
Egypt (1992)	6.4	17.0
Morocco[a] (1992)	13.0	25.3
Latin America		
Argentina[b] (199_)	8.5	12.7
Bolivia[a] (1992)	5.4	5.5
Costa Rica (1994)	3.5	5.8
Chile (1994)	5.4	6.8
Ecuador[a] (1994)	5.8	9.3
Jamaica (1993)	9.7	22.9
Mexico[c] (1993)	2.1	3.1
Panama (1994)	10.5	20.1
Uruguay[a] (1993)	6.5	10.9
Asia		
China[a] (1994)	0.8	1.1
Hong Kong Province of China (1994)	2.1	1.7
Israel (1994)	6.2	10.0
Pakistan (1993)	3.8	10.3
Philippines (1994)	7.9	9.4
Republic of Korea (1994)	2.7	1.9
Sri Lanka[d] (1994)	9.9	20.8

Source: International Labour Office, Yearbook of Labour Statistics 1995 (Geneva, ILO, 1995).

Note: Data based on labour force and household sample surveys except for China whose data are based on official estimates.

[a] Urban areas only.

[b] Greater Buenos Aires only.

[c] Metropolitan areas of Mexico City, Monterrey and Guadalajara.

[d] Excludes Northern and Eastern provinces.

Box 7.2. Employment creation and export processing zones

Export processing zones (EPZs) are customs-free areas in which domestic and foreign firms engage in export-oriented activities. They often enjoy preferential treatment, such as tax exemptions on profits, imports and exports; freedom from foreign exchange controls; and streamlined bureaucratic requirements.

In most countries tax-free export processing activities are confined to a particular area or zone; in some countries they are scattered throughout the country. In Mauritius, for example, export processing factories can operate anywhere in the country provided they have an EPZ certificate. In China export processing activities were initially an integral part of the so-called Special Economic Zones (SEZs), the activities and objectives of which went beyond export promotion. Export processing in China has now been extended beyond SEZs, particularly in the coastal regions.

Most EPZ activities are in traditional labour-intensive manufacturing industries, such as textiles and garments, footwear and electric and electronic products. In recent years data processing has also emerged in EPZs, and Governments provided telecommunications facilities (teleports) following a wave of investments by foreign companies, mainly from the financial and air transport sectors. In the Republic of Korea and Taiwan Province of China, higher-technology, skill-intensive production replaced low or unskilled labour-intensive activities. Shifts towards skill-intensive manufacturing are also taking place in other countries. These exceptions notwithstanding, however, EPZ activities are overwhelmingly low-skill and labour-intensive in most countries.

Several objectives, including the creation of employment opportunities, the generation of foreign investment and export earnings, the expansion of fixed capital stock and the promotion of technology transfer, underlie the establishment of EPZs. EPZs have been particularly effective in employment generation. The World Investment Report 1994 estimates that there are more than 170 zones in operation in 56 developing countries, directly providing some 4 million jobs.[a]

The direct and indirect impact of EPZs on labour markets has recently come under scrutiny. Except for some small countries, such as Mauritius and Saint Lucia, direct employment in EPZs accounts for only a small fraction of the labour force (1 to 2 per cent in most cases) although the impact on the modern manufacturing sector is substantial. In Malaysia, Mexico, Indonesia, Botswana, Singapore, Barbados, Sri Lanka and the Philippines the employment generated by EPZs is estimated to represent at least 20 per cent of total wage employment in manufacturing. In Saint Lucia one out of two jobs in manufacturing is in export processing activities. At the regional level the impact can be substantial: 70 per cent of manufacturing jobs in Penang, Malaysia, for example, are in EPZs.

Employment in EPZs can be short term and unsecured. Production facilities are usually leased from the Government or privately owned industrial parks and sudden closures are frequent, as firms relocate in search of lower labour costs. In many cases, production processes are seasonal: plants close down, and workers have no assurance of being hired again the following season. EPZs have frequently been criticized for providing sub-standard working conditions and for vigorously discouraging unions. In some countries during some periods Governments have approved exemptions from labour laws in EPZs. The Government of Mauritius, for example, intentionally set minimum wages in the export processing factories lower than in the rest of the economy to counter rampant unemployment and exempted these factories from many labour laws. In the Caribbean, by way of contrast, wages, benefits and working conditions in the EPZs are reported to be superior to those offered by firms operating in the domestic economy.[b]

Possibilities for technology transfer and training by firms in EPZs are limited, particularly in industries based on unskilled labour. Nevertheless, some training is available, and exposure to modern manufacturing practices and management does take place. In addition, local residents are often recruited as managers and line supervisors, which provides them with some opportunities for career advancement and acquisition of skills. Labour market segmentation seems to exist between the EPZ and domestic markets, except in South-East Asia and China, where labour movement between EPZs and the domestic economy has occurred.

One of the most striking features of the EPZs is that 70 to 80 per cent of the total workforce consists of women between 16 and 25. This is partly a consequence of the types of industries located in EPZs: female employment dominates in footwear, garments and electronics production everywhere. Most workers are unskilled or semi-skilled, their wages are usually lower than those of male employees. In addition, female workers are generally less educated and less likely to be unionized than their male counterparts, and they are regarded as more disciplined and more submissive to authority.[c]

The indirect employment effects of modern manufacturing in developing countries are potentially larger than the direct effects, although the magnitude of the total effect is difficult to gauge. A broad classification of indirect employment effects distinguishes among horizontal, macroeconomic and vertical effects. Horizontal effects refer to the creation or displacement of jobs in local enterprises after a zone is opened. Displacement occurs when production within the zone substitutes for that of local enterprises; creation occurs when production is complementary. Macroeconomic effects refer to jobs generated throughout the host economy as a result of spending by EPZ workers or shareholders or lost as a result of the increased import content of production.[d] Vertical effects include the backward and forward linkages which a firm operating in an EPZ may establish with its suppliers and customers. A firm based in an EPZ could purchase raw materials, parts and services in the local market, and it could distribute its products through a network of local dealers.

On the whole, horizontal and macroeconomic effects are believed to be positive but too thinly spread to be measured. In Mexico, however, the fact that employment growth in the maquila industry has been accompanied by a contraction in the more traditional sectors of manufacturing in the local economy (textiles, apparel and footwear) may indicate that some displacement is taking place.

In terms of vertical effects, backward linkages are important on average, but differ greatly across countries; forward linkages are negligible everywhere. The degree of isolation of a zone from the rest of the host economy is an important determinant of the magnitude of all indirect effects on employment; relations and exchanges with local enterprises throughout the country need to be frequent and enduring. The level of development of both local enterprises and the export processing enterprises and government policy will determine how closely the two sectors interact.

Possibilities of linkages depend on the sourcing strategy put in place by export processing companies as well as on the trade regulations affecting export markets. But, government policy usually prevents the establishment of relations between the zone and the exterior. Formation of forward linkages is very limited because the zone's output is exported to overseas markets; Governments usually put restrictions on sales to the host economy. Backward linkages are often prevented by either legal or economic barriers, such as formal prohibitions or burdensome bureaucratic procedures. Some Governments fail to recognize that linkages between a zone and the host economy can have positive effects and treat the sales of locally produced inputs to EPZs as exports, submitting them to strict customs charges and cumbersome licensing requirements. Since inputs imported by EPZ companies from foreign countries are duty free, local suppliers become uncompetitive. A study of EPZs in four Caribbean countries reveals that backward linkages have been successfully developed in only one of them, Saint Lucia, where government policy places no restrictions on domestic producers supplying EPZs.[e] The Republic of Korea; Taiwan Province of China; and Mauritius have successfully woven EPZs into their industrialization process through the establishment of durable links between the EPZs and domestic suppliers, thus maximizing the potential the zones offer in terms of employment creation.

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[a] World Investment Report 1994 (United Nations publication, Sales No. 94.II.A.14).

[b] ECLAC/CDCC, "Export processing in the Caribbean: lessons from four case studies (15th Session of the Caribbean Development and Cooperation Committee, Santo Domingo, 26-29 July 1994).

[c] Amirahmadi-Wu, "EPZ in Asia", Asian Survey, September 1995.

[d] World Investment Report 1994, pp. 185-195.

[e] ECLAC/CDCC, op. cit.

4. Child labour

33. There is wide media exposure of and international public outrage over children working as prostitutes, slaving away at carpetmaking or begging on the streets. Much less attention is given to the silent army of very young workers engaged in agricultural activities, housework, family business or other forms of work in many instances detrimental to their development.

34. Childhood needs to be protected; the lack of a developmentally appropriate physical and emotional environment can have lifelong negative implications. Article 32 of the Convention on the Rights of the Child (General Assembly resolution 44/25, annex), which has been ratified by all but six countries, states that a child has the right "to be protected from economic exploitation and from performing any work that is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral or social development" and commits State parties to take "legislative, administrative, social and educational measures" to implement this right. Countries are expected to adopt and implement laws on minimum working age, working hours, and working conditions. This may not be enough however.

35. Child labour is the outcome of poverty and ignorance. Poor families depend on their children not only for the income they generate but also to better manage the income risk they face (from job loss or crop failure, for example). The lower the household income level, the more threatening the interruption of child labour is for the household survival. In poor households child labour functions as an insurance strategy; its forced abolition is likely to fail as long as poverty persists.[24] But eradication of poverty is a long term process and more forceful and effective measures to end detrimental child labour are urgently required.

36. The poor quality of the education system contributes to the existence of child labour. A crumbling and inadequate education system do not provide incentives for families to send their children to school; the benefits in terms of better employment opportunities in the future are not perceived to exceed the efforts and opportunity costs involved. Even if wide-scale poverty is not eradicated, more effective efforts should be made towards eliminating abusive work practices involving children. In addition, safety nets should be devised to protect poor households subject to income risk. Improvements in school systems are also required. The importance of education should not be minimized; in countries in which child labour was eliminated, compulsory education played a significant role. A policy of universal education should be adopted as an instrument of child labour reform, and child labour laws should incorporate the goal of universal education.[25]

5. Economic reforms and employment creation

37. The process of adjustment and restructuring that followed the economic crisis of the early 1980s has not been completed. Several developing countries are still engaged in serious adjustment and stabilization efforts in an attempt to free their economies from unsustainable imbalances and the rigidities of the past and to integrate themselves more fully into the global economy.[26] Others have only recently initiated this process or are revising and renewing their adjustment strategies in view of the external shocks their economies have experienced recently. Despite their differences in terms of level of development, productive structure and political conditions, the reforms being adopted by developing countries share some common elements and have produced similar outcomes - at least temporarily - in terms of their impact on local labour markets.

38. The need to improve the efficiency of the governmental apparatus, balance the fiscal budget and promote the role of the private sector as the engine of growth in the economy led to civil service reforms and a significant withdrawal of the public sector from the production and supply of goods and services. This has had negative consequences for employment generation by the formal sector, particularly in which the state through either its administrative functions or its participation in productive activities had been a major employer. A wide range of reform approaches has been adopted, including removal of "ghost" employees, elimination of officially sanctioned posts not currently filled, retrenchment of temporary or seasonal workers, enforcement of retirement age, elimination of guaranteed entry for graduates, suspension of automatic advancement, incentive-induced "voluntary" retirement, wage freezes and dismissal of civil servants. Typically, Governments have first adopted reforms with the least negative political impact. Initially, Governments sought to reduce the level of wage expenditure without cutting employment. Consequently, while public servant real wages plummeted public sector employment continued to grow. Action on employment levels began in the second half of the 1980s. In sub-Saharan Africa public sector reforms had a substantial negative impact on the growth of formal employment, not so much because public employment was cut but rather because formal employment was not growing at the same pace as an expanding, usually educated and young urban labour force. Recruitment freezes were imposed in Benin, the Gambia, Mauritania, Sierra Leone, Somalia and the United Republic of Tanzania. Automatic hiring for school graduates was abolished in Benin, the Central African Republic, the Congo, Guinea, Mali, Rwanda, Somalia and the Sudan.[27] This helps to understand why unemployment among the educated youth has become a problem in these countries. Public sector employment cuts were significant in Ghana, where at least 45,000 civil servants were dismissed in the second half of the 1980s.[28]

39. Similar trends have taken place in North Africa and in the oil-exporting countries of West Asia since the late 1980s as continuous expansion of public hiring through increased public indebtedness became unsustainable. Currently, these countries are facing the challenge of creating employment outside the public sector but within the domestic economy; in North Africa the migration scape valve - and the foreign exchange it generates is closing. Cuts in public expenditures in these countries have also affected the private sector, which is overly dependent on the public sector for generous service contracts. In Latin

America public employment continued to decline in the early 1990s, with the sector losing its relative importance in Bolivia, Colombia, Panama, Uruguay and Venezuela. More than 200,000 government workers have lost their jobs in Peru between 1990 and 1993. The privatization wave that accompanied the restructuring of the public sector has also taken a toll on formal employment in these economies. Similar developments took place in Malaysia, where a partial freeze on recruitment caused public employment sector growth at a much slower pace in the 1980s than in the 1970s. Privatization of state-owned enterprises in Malaysia was not negatively affected because of a non-retrenchment condition imposed by the Government during the first five years after privatization.[29]

40. In China the restructuring of state enterprises has contributed to increase urban unemployment as financially strapped companies shed labour. Since the introduction of reforms, workers can be hired as contract labour and are not guaranteed lifetime employment. As a result of the reforms, the percentage of contract workers in the total labour force employed in the state-owned enterprises rose from less than 4 per cent in 1985 to about 19 per cent in 1993. A small percentage of "permanent" workers were also laid off as a result of the introduction of bankruptcy procedures, merger and acquisition in the state sector.

41. Some Governments have been able to introduce temporary measures to alleviate the negative impact of reforms. The Bolivian Government created the Fondo de Emergencia Social in 1986 to cushion the impact of stabilization policies on employment. The objective of the fund was to generate employment for workers displaced by the economic crisis by small-scale financing labour-intensive projects in productive and social infrastructure.[30] Chile established an emergency employment programme which absorbed 13 per cent of the labour force at the height of the economic crisis in 1983. Not all employment programmes have been reform induced or conceived as a response to a temporary increase in unemployment, however. Permanent employment programmes have also been established as part of an overall strategy to deal with unemployment and underemployment problems, particularly in rural areas. Usually these programmes have been aimed at the poor. The Employment Guarantee Scheme (EGS) in the Indian state of Maharashtra is one of the most prominent examples of such initiatives.[31] Public works programmes create infrastructure which is required but lacking for rural development, although the quality of the assets created has not always been standard, and the programmes have not necessarily been productive or pro-poor. A more significant shortcoming of these programmes is that unless they are institutionalized their effect on the demand for labour is temporary, and they do little to expand the earning capacity of the unemployed.[32]

42. Most economic reforms involved adjustment of the exchange rate. The impact of devaluation on employment cannot be easily assessed given the multitude of factors at play, including the relative importance of tradeable and non-tradeable sectors in the economy, their respective labour intensities and the speed with which economic agents can respond to changes in incentives.[33] In addition to its positive impact on the exportable sector, devaluation may stimulate import-competing industries, as it has in Côte d'Ivoire since the devaluation of CFA in 1994. The impact of devaluation on employment also depends on the degree of import dependence and liberalization of the economy. The balance-of-payment adjustments that took place in developing countries in

the first half of the 1980s were based on severe import compression so that surpluses could be quickly generated in the trade account to meet debt servicing obligations given sluggish export growth and the absence of foreign private capital inflows. Imports collapsed and with them the imported input-dependent manufacturing sectors of several developing countries. In more recent adjustment efforts devaluation has been accompanied by a process of trade liberalization, which may partially offset the increase in the cost of imported inputs brought about by devaluation. Liberalization implies increased competition for domestic producers, which, exposed to more efficient foreign producers, must either improve their competitiveness - usually by reducing labour costs - or cease their activities. Since 1990 the process of trade liberalization in Brazil has led to a profound restructuring of the industrial activities, which brought about a decline of more than 20 per cent in the level of employment in (formal) manufacturing in the state of São Paulo between 1990 and 1994. But liberalization of the economy also leads to new economic opportunities, which may be positive in terms of employment creation. In Mexico, for example, increased foreign direct investment in the manufacturing sector expanded employment in that sector by 30 per cent between 1989 and 1994 (see box 7.2).

43. In some Latin American countries, however, trade liberalization has been accompanied by an appreciation - rather than a devaluation - of the exchange rate as a result of the use of the foreign exchange rate as a "nominal anchor" of stabilization programmes. In Argentina, the adoption of the Convertibility Plan in 1991 fixed the exchange rate parity against the dollar, empowered Congress to approve any devaluation and limited any expansion of the monetary base to the accumulation of foreign reserves. The Plan was successful in terms of controlling inflation, and Argentina now has one of the lowest consumer price inflation rates in the world. But the effect on employment has been harsh. Within a fixed exchange rate regime, the peso appreciated in real terms as a result of massive inflows of foreign capital during the first half of the decade and the inflation differentials between Argentina and its major trading partners. This appreciation led to an increase in labour costs - measured in dollar terms - of the export and import-competing sectors. As the Argentine economy lost its competitiveness both on the external and the domestic markets imports soared and unemployment rose from 6.5 per cent in 1991 to 11.5 per cent in 1994. It has been argued that unemployment would have been greater during that period had it not been for the boost in domestic demand brought about by stabilization (GDP grew by an annual average rate of 7 per cent in the 1991/94 period). When the temporary halt in capital inflows reduced domestic demand in 1995 unemployment soared to 18 per cent.[34] It should be noted, however, that expansion of the labour force in a recessionary environment may also have contributed to soaring unemployment. In response to deteriorating employment possibilities and earnings of male workers, female participation rates increased in Argentina, rising from 31.5 per cent in 1994 to 35.1 per cent in 1995.

44. Labour market reforms were introduced to eliminate rigidities in local labour markets and increase the demand for labour. These rigidities were reflected in the institutional arrangements regulating the hiring and firing of workers, in wage levels and in wage related costs. There has been a trend towards decreasing the real cost of labour, increasing the flexibility of labour

norms and shifting employers' costs to the employees or the Government. In several countries, minimum wages have lost their purchasing power, and average wages have fallen particularly in Africa and Latin America. In some countries, mainly in Latin America, unemployment insurance was introduced to reduce the burden of severance payments on the firms. In addition, old age pension systems have been revamped, and the new structure that emerged now requires little - if any - contribution by employers. Labour markets in developing countries have proved to be highly flexible but this has not been sufficient to create jobs fast enough, and higher unemployment has emerged in several countries.

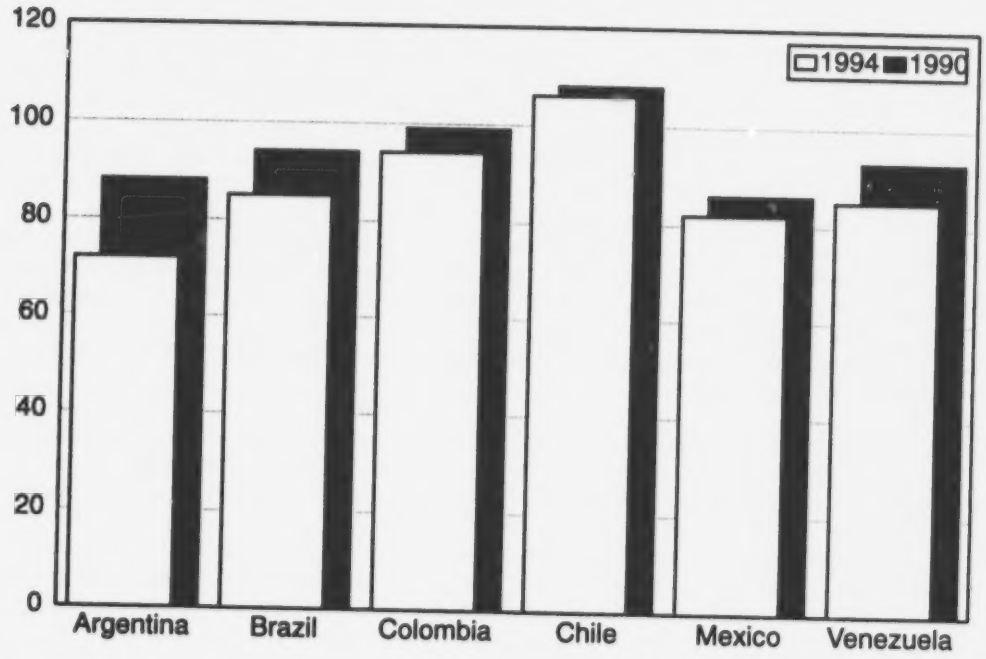
45. Critics of reform have argued that labour supply conditions are not the main cause of unemployment in developing countries, where the lack of demand, particularly of investment, is the real problem. They note that in the East and South-East Asia, where investment continued to grow, unemployment was not a problem.[35] They also claim that labour regulations have not hindered the demand for labour in developing countries, where few of these regulations are enforced[36] and that some labour regulations have positive effects on raising the rate of human capital accumulation. While this debate remains still very much alive, it should be recalled that labour market reforms are not the only factor at play in the determination of employment levels. These reforms have taken place within the overall restructuring of the economy, which can lead to job losses. It is difficult to disentangle their impact on the labour market from overall developments in the economy.[37]

46. Finally, while the continuous accumulation of public sector workers and protection of inefficient industries have proved to be unsustainable, the experience of countries well advanced in the adjustment process has shown that reforms take time, and the transition period can be costly in terms of its adverse social consequences. A common by-product of the lack of economic dynamism and the restructuring process has been an increase in poverty and expansion of the informal sector as employment in the formal sector has contracted. A great challenge confronting Governments is therefore the provision or promotion of safety nets for labour made redundant by reforms while the positive effects of the latter are not felt in terms of faster growth and greater labour absorption.

6. The informal sector: marginalized or integrated?

47. The informal sector is growing in developing countries. In Latin America, despite faster economic growth and lower open unemployment in the early 1990s, the percentage of the non-agricultural labour force employed in formal activities has continued to decline (see figure 7.6). In Asia the informal sector generated at least 60 per cent of the urban employment in countries such as Pakistan and Thailand in the late 1980s, and there has been evidence of growth in informal sector unemployment in selected large cities across the region.[38] In Africa the vast majority of urban employment generated in the 1990s has come from the informal sector.

Figure 7.6 Changes in the share of the non-agricultural labour force employed in formal activities, selected Latin American countries, 1990 and 1994 (1980=100)



Source: ECLAC, "The economic experience of the last 15 years" (Santiago, UN/ECLAC, 1996).

48. Defining the informal sector has remained elusive, complicating efforts to identiy the reasons underlying its growth and the policies needed to ensure that its benefits are maximized. Some authors have argued that the proliferation of informal sector activities is the result of a poor and inadequate legal-administrative framework, which encourages entrepreneurs to conduct their operations outside the law because of the high costs associated with legal compliance. While this argument may be valid in some countries, particularly where taxation and labour regulations have been extensive, it tends to overlook the fact that evasion takes place even in large enterprises in the modern sector, and labour and tax regulations are not an issue for a wide range of self-employed informal workers.[39]

49. Some studies have defined the sector in terms of its low technological requirements, labour-intensity, small scale of operations generally drawing upon the work of family members, ease of entry and unsecured and relatively low returns. Others have characterized the sector in terms of its use of management methods which differ from those used in the modern sector, most notably its absence of standardized accounts. Recently, it has been recognized however that the informal sector is not monolithic. There is considerable segmentation in terms of income-generating activities, with those at the higher end presenting barriers to entry, such as higher skill levels and financial requirements. In fact, some segments of the informal sector generate higher incomes than some segments of the formal economy, suggesting that the informal sector may not be the "employer of last resort" but may attract workers given the potential of higher earnings in that sector.[40]

50. The relationship between the informal sector and the formal economy remains unclear. Some see the sector as supply driven, that is, absorbing labour released from or not employable in the formal sector, with negligible, if any, linkages with the latter. In this sense, the growth of the sector can be explained in terms of the limited capacity of agriculture to absorb labour and the resulting migration of rural workers to the cities in search of jobs and higher earnings. Given the relatively small size of the formal or modern sector and the limited skills offered by the migrant workers, many of these migrants end up working for themselves or taking casual jobs thus increasing the ranks of those employed in the informal sector. The relatively high capital intensity of modern manufacturing and its recently observed lack of dynamism have also been identified as underlying the expansion of the informal sector in the urban areas. Others believe that workers are attracted to the sector in view of the possibility of higher earnings and that the informal sector should be seen as an important component of successful development which should be supported by adequate policies.

51. Among proponents of this demand-driven view some believe the rapid growth of the sector is caused by changes in the production process in the formal sector. "Informalization" by the formal sector allows it to increase its flexibility to respond to the changing economic environment and global restructuring by shifting production and services to outside contractors while cutting wage costs. Indeed, it has been argued that changes in employment result from changes in the practices of enterprises. Reduced product cycles, changes in technology and increased international competition have forced firms to respond more quickly to fluctuations in demand and changes in consumer

tastes. Production units have been reduced and now comprise a secure core of workers surrounded by a periphery of temporary workers, outworkers and subcontractors. The characteristics of the macro environment may also be conducive to informalization. In Brazil, for example, increased informalization is believed to have been dictated by the fact that macroeconomic instability prevents long-term planning, and investment and existing labour market institutions encourage formal sector enterprises to establish informal labour contracts.[41] But while the process of informalization seems to explain some of the dynamics of informal sector growth in some countries in Latin America and Asia, it does not explain the growth of the sector or the intensification of the process in Africa, where the informal sector has minimum forward productive linkages with the formal economy, in part because of the poor quality and unreliability of its production. Backward linkages are significant, however, and some use of the informal sector in distributive activities by the formal economy has been observed.[42]

52. These arguments may not be mutually exclusive. Given the diversity and complexity of the sector, they provide interesting insights that may help understand different aspects of this phenomenon.

53. The difficulties in defining and analysing the informal sector have caused some authors to abandon the concept altogether[43] and focus instead on a more easily identifiable - albeit not free from definitional problems either - object of analysis, the micro- and small enterprise. These firms are more homogeneous than the informal sector and have demonstrated significant capacity in terms of labour absorption. Small enterprises are estimated to have absorbed more than 40 per cent of all new entrants into the labour force in Botswana, Kenya, Malawi, Swaziland and Zimbabwe during the past decade. In China self-employed units, which can employ up to 8 workers, absorbed more than 29 million workers in 1993. In Latin America 22 per cent of the non-agricultural labour force was estimated to be employed in small enterprises in 1993.[44] Given the ability of this sector to generate employment, some argue, obstacles to their development should be reduced or eliminated by introducing appropriate policies so that their contribution to job creation and improved earnings can be maximized.

54. Laws and regulations are not perceived as the most serious barrier to the development of micro-enterprises.[45] While the degree of compliance varies widely within the countries in which surveys were conducted (Algeria, Ecuador, Jamaica, Niger, Swaziland, Thailand and Tunisia), a significant share of these enterprises at least partially abide by established regulations. In countries in which incentives to comply exist (such as access to credit and tax rebates), conformity with the administrative and institutional framework is significant. This is not to say that existing regulations cannot be improved upon or adapted in order to be more supportive of the sector. Lack of capital, limited access to credit and insufficient demand top the list of the major impediments to growth of the sector. Indeed, credit allocation in developing countries has been notorious for its discriminatory practices against small businesses, particularly businesses unable to provide loan guarantees.

55. The problem of insufficient and unstable demand seems to be a source of concern in countries with relatively low levels of income, particularly in the rural areas, where micro-enterprises are usually less dynamic than their urban

counterparts. The survival of these businesses is constrained by the low incomes and productivity of the rural population engaged in agriculture. Given their limited linkages with the rest of the economy and low accumulation it is not clear how much momentum these enterprises may be able to sustain. Insufficient demand is a problem in several countries, not all of them in sub-Saharan Africa.[46] In contrast, the success of small (non-farm) enterprises in rural areas in China can be attributed in part to rural economic growth since 1978. With rural income growing by an average annual rate of 12 per cent from 1978 to 1985, strong demand for goods and services emerged. The Chinese Government also launched a series of policy measures (credit, tax, trade and investment liberalization) to promote the sector.[47]

56. By containing overall demand or leading to a decline in incomes, restrictive economic policies have adversely affected the sector in several countries, including in Algeria during the implementation of adjustment measures in the early 1990s and in China as a result of policies to contain inflation. Policies aiming at the development of the sector per se may not be sufficient, as its growth potential rests in part on the overall level of demand in the areas in which it operates. Overall macroeconomic policy needs also to be growth conducive.

57. Employment creation by micro-enterprises is often the result of new starts. Surveys conducted in five sub-Saharan countries indicate that start-ups accounted for 73 per cent of the employment creation by the sector. The rate of survival of these enterprises is low, and in some cases net employment creation is actually negative.[48] Policy intervention may be required to increase the survival rate of micro-enterprises, since those which do survive the difficult initial period can contribute to employment creation.

7. Policy considerations

58. The success of countries in which unemployment is low demonstrates that rapid sustainable economic growth is essential for employment generation. How such growth can be promoted remains open to debate, although there is general agreement that macroeconomic stability is a necessary, albeit not sufficient, condition. The possibility of both domestic and external indebtedness is therefore very much reduced. Although controversy remains on what constitutes a sustainable fiscal position, the role of the state as a source of growth has been greatly diminished; as a result, the stimulus for growth will have to come from the domestic private sector and from abroad. Accordingly, developing countries have embarked in policies aiming at liberalizing their economies as to increase their competitiveness in international markets and attract foreign investment as a means to promote growth. While the positive long-term effects of reform are yet to be fully realized, the short-term impact on unemployment has been observed. Reforms take time, and only recently have signs of domestic investment recovery been observed in some countries.

59. But growth by itself is no guarantee that employment will rise - the pattern of growth must be labour absorptive. The labour absorption strategy a country adopts is determined in part by the quality and quantity of labour resources available in the economy. For countries with ample labour resources

labour-intensive growth will be based on the use of unskilled labour in both agriculture and manufacturing. Such an approach has limits, however, and it is doubtful that countries will want to base their development strategies exclusively on economic activities that demand unskilled labour.

60. In agriculture the use of land-augmenting and labour-using technologies has been suggested. These technologies favour the use of high-yielding and shorter duration varieties so that expanded land productivity and multiple cropping is possible and labour input is increased. Yet, even if these technologies have a positive net effect in increasing the demand for labour, agriculture alone cannot absorb the excess labour in the economy.[49]

61. Non-farm rural activities can offer important employment opportunities. Indeed, small and micro-enterprises operating in both rural and urban areas have been absorbing a great deal of the new labour that has been unable to find employment in the "modern" sector. Yet, the potential for such activities in terms of both the sustainability of employment generated and the adequacy of earnings provided remains untapped because of constraints, including poor managerial skills, lack of basic infrastructure, access to technology, credit and inputs, insufficient demand, and lack of linkages with the rest of the economy.

62. Demand constraints can be reduced by a growing agricultural sector. Agriculture is a source of demand for production inputs, supplies and services produced or distributed by the non-farm sector. If agricultural incomes are growing they can support increased consumption and greater demand for basic consumer goods and services supplied by rural industry. The rural non-farm economy is particularly important for the rural poor, and its growth can contribute to the reduction of poverty.

63. Two types of policy measures may be required for the development of micro- and small enterprises. The first type of measure should aim at strengthening the skills of those starting new business in order to increase their chances of survival. The second type of measure should target constraints to growth (by increasing access to credit and adequate technology, for example). Given that policy intervention requires fiscal resources, which are usually limited, and that most micro- and small enterprises do not survive, Governments will need to be selective in supporting the sector. Evidence of lack of growth in the micro- and small enterprises sector is stronger in Africa than in Latin America, which may suggest that impediments to the development of the sector may be more serious in Africa.[50] Many start-ups are one-person enterprises - often the least efficient size in the business - and a high percentage of these enterprises fail. On the other hand, small increases in size are often associated with significant increases in economic efficiency.

64. Micro- and small enterprises should not be seen as the panacea for the employment and development challenges facing developing countries. These enterprises currently cater to low-income segments of the markets, supplying goods and services of relatively low quality using technology that is appropriate to the markets in which they operate. If developing countries are to increase their participation in international markets and to succeed in the global economy they must be able to supply higher quality goods and services

demanded at competitive prices. Moreover, they must be able to respond quickly to the changing tastes and preferences of international consumers. Only the most dynamic segments of the small enterprise sector - which usually have links with technically more efficient large-scale enterprises operating in the modern sector of the economy - are currently able to do so.

65. Small and rural enterprises have played an important role in the industrialization process in several East Asian countries. It has been argued, for example, that policies on ancillary activities, subcontracting and on location of industries in rural areas in Japan were designed to produce effective linkages between small and large-scale enterprises.[51] It is not clear, however, whether the conditions that made this pattern of growth possible there currently exist in developing countries, where most micro- and small-scale enterprises may not be able to supply goods and services of the quality and with the reliability required by modern industry. Moreover, many of these enterprises operate in sectors of activity in which linkages cannot be established. This is not to say that micro-enterprises do not have a role to play in the development efforts of developing countries. Developing countries should consider adopting policies which increase productivity, upgrade output and forge durable linkages between these firms and the rest of the economy. There is, however, a long way to go before the growth and income potential these industries offer can be realized and the extent of their contribution to the overall growth of the economy should be seen with some perspective.

66. In manufacturing the development of industries based on unskilled labour has been advocated, and the example of the East and South-East Asian countries is constantly evoked. Such a development strategy needs to be anchored to appropriate policies with a view to reducing existing distortions in the economy which favour the use of capital rather than labour. Exchange rates and tariff regimes, for example, should not discriminate against labour-intensive activities. An artificially appreciated exchange rate increases labour costs in foreign currency terms and reduces the competitiveness of the domestic economy. Before trade is liberalized, local producers should be given adequate time to prepare to face international competition. The dismantling of barriers on capital goods imports - to facilitate the absorption of modern technology available elsewhere - and the abolition of disincentives on export should thus precede overall liberalization of the trade account.

67. Low-skill-based manufacturing, however, should be perceived as temporary, an early stage of an evolving development strategy, and not an end in itself. First, because the employment it creates is vulnerable to the emergence of cheaper sources of labour. Second, it may leave the country with limited indigenous technological capacity. Finally, it may create a pattern of dependent industrialization trapping the economy in a low-income path. Upgrading of existing labour skills may be required eventually to shift the economy to a higher skill pattern of development, in which technological process is incorporated into the production process so as to maintain competitiveness and to sustain growth. The Republic of Korea, Taiwan Province of China, and Singapore, among others, are familiar examples of countries which gradually shifted from low-skilled labour-intensive manufacturing to more skill-intensive manufacturing. Such a shift should not be considered as only possible in manufacturing (and services). Agriculture also provides opportunity for skill-

intensive growth as Chile's experience in developing agricultural products for export (particularly fresh fruits) shows.

68. Skill upgrading may not be enough to tackle the unemployment problem, however. In several developing countries both the level of educational attainment and the level of unemployment remain high. Education per se by acting only on the supply side of the labour market offers no guarantee that the economy will generate enough job positions. There must be demand for that skilled labour as well.

69. In designing development strategies policy makers must recognize that their economies are part of the global environment. The increasing globalization taking place today may make it more difficult for Governments to use policy instruments used in the past. Although Governments can still intervene in and guide their economies, globalization has limited the room for maneuvering. Policy makers must adopt policies that simultaneously generate employment and increase efficiency so that their countries' products are able to compete on global markets.

70. Increasing globalization and integration of the world economy have the potential to spur growth in developing countries, but barriers to integration must be overcome. While some of these constraints can be dealt with at the national level - and the process of economic restructuring taking place in these countries has much to contribute[52] - others, including the problem of market access, require increased international cooperation.

71. Despite the success of the Uruguay Round of multilateral trade negotiations, many manufactures exported by developing countries, particularly labour-intensive goods, continue to face relatively higher tariff levels, tariff escalation persists, and anti-dumping actions are frequent, hindering these countries' industrialization efforts.[53] Recently, labour standards have become an issue in international trade. Developing countries have been accused of "unfair" competition practices for allegedly failing to comply with internationally agreed upon labour standards, and some developed countries have threatened to impose higher tariffs and other trade sanctions on these imports in order to compensate for the lower labour costs in developing countries.

72. It is not clear how much labour shedding in the developed economies can be attributed to increased exports by developing countries. As these are dynamic economies undergoing changes, employment losses in one sector may be compensated by employment creation in other sectors where they have a competitive edge, and the net effect of increased trade - not to be forgotten is that developed countries' exports to developing countries expanded rather rapidly in the past years - ends up being positive.

73. Another area requiring strengthening is official development assistance flows. Only a handful of developing countries have access to global private capital markets; the vast majority remains excluded from these markets, confined to the dwindling flows of official assistance. Inadequate access to capital makes it difficult for these countries to restructure and modernize their economies, to participate more actively in the global economy and to address the employment challenges they currently face.

B. Labour markets and unemployment in transition economies

1. Trends in employment and unemployment

74. Since the abandonment of central planning and the introduction of market-oriented reforms, all of the former socialist countries have experienced a surge in open unemployment, which has significantly altered the existing social landscape. Guaranteed employment - a pillar of state-directed policies aimed at creating unlimited demand for labour without due regard to the efficiency of its use - ceased to exist when open-ended transfers of budget subsidies to public enterprises were curtailed. The emergence of some unemployment as part of the economic restructuring as a result of transition was expected; it was considered the price to be paid for a more efficient organization of the national economy - including greater integration with the world economy - geared towards achieving higher national incomes and substantial improvements in the overall quality of life.

75. While these strategic goals remain on the agenda of the ongoing reform process, in practice the transition has imposed a much heavier social toll than has been anticipated by either policy makers or the population. Unemployment rose to high levels in all of the transition economies and wages and hours were cut. Wage arrears, particularly in the countries of the Commonwealth of Independent States (CIS) became widespread. The decline in economic activity varied from country to country, but in most countries output fell by 20 to 50 per cent in the first years after the reform was implemented. In the Baltics, the Russian Federation and other countries of the former Soviet Union the weighted average of the cumulative decline in real GDP between 1991 and 1994 was 49.2 per cent.[54] Although the loss of jobs in real GDP between 1991 and 1994 was 49.2 per cent.[54] Although the loss of jobs in transition economies was lower than the corresponding decline in production, joblessness rates often exceeded those in other European countries with much higher per capita incomes and well-established safety nets. Only a dramatic and sustained economic rebound in the transition economies can substantially improve the employment outlook there in the medium term. In the long term, new jobs will be created and growth in employment will be sustained as a result of successful recovery and more efficient labour markets.

76. There are already signs of a possible improvement in the labour market. In the mid-1990s the rate of employment contraction slowed in most Eastern European countries as a result of a tentative economic upturn, and unemployment rates declined slightly or stabilized. In the Czech Republic unemployment is the lowest in Central Europe - an achievement under any circumstances, but particularly so given the strain of a systemic transformation. Employment began to grow in other countries, including Albania, Poland and Slovakia, in 1995/96. In the CIS countries, however, employment continued to fall and unemployment rose.

77. As part of restructuring and reform, centralized wage setting with rigid tariff structures gave way to collective bargaining although in most countries some form of modified incomes policy was retained. The decline in real income experienced by a substantial proportion of the population following liberalization of prices and macroeconomic stabilization was only partially offset by new sources of income (derived from entrepreneurial activities or

returns on property, for example), and most people had to seek part-time employment to supplement their income. Unregistered or unofficial employment became common in many countries.

78. The emergence of widespread and persistent open unemployment has been a major social challenge for governments in the transition economies. Growing poverty and the widespread loss of jobs are not just economic and political concerns; they represent a substantial psychological burden for a population accustomed to job security. A troublesome sign has been observed in some countries, where the number of discouraged job-seekers among the long-term unemployed who did not renew their registration with employment offices has risen.

79. The emergence of mass unemployment required major changes in the scope and content of government-supported employment policies, including the creation (sometimes from scratch) of institutional networks aimed at easing the plight of the unemployed. These measures have required major budget allocations at a time of already tight public finances and often a shrinking tax base. As a result, many transition economies were forced to tighten eligibility criteria and modify the system of unemployment entitlements. Further redistribution of social assistance to those in need may be on the agenda.

80. While the ongoing globalization of the world economy presents new opportunities for trade and investment, its effect on employment in the transition economies has been neutral or negative. In the long run fuller utilization of human resources may depend upon better allocation of resources to sectors in which these countries have a comparative advantage. Although globalization and liberalization inevitably cause some unemployment liberalization policies foster private entrepreneurship and bolster the prospects of structural change that will lead to sustained economic growth.[55] These policies and a more open trade environment may thus create employment, particularly in the longer run. Governments must try to identify policy instruments which will not only curtail the rate of job losses but also will actually increase employment.

81. A commitment to full employment was deemed essential by the World Summit for Social Development. Under central planning guaranteed full employment was achieved (except for some inevitable frictional unemployment), but much of the employment in the state-owned sector was not efficient, productivity criteria was missing in wage setting, and there was substantial labour hoarding within enterprises. Full employment in these economies was achieved at the cost of low labour productivity and low wages, and a guaranteed right to employment was in practice a de facto legal obligation for most people, often enforced through administrative coercion. The Programme of Action of the Copenhagen Summit defined policies and actions for attaining the objective of full employment based on principles of a market economy. Despite the revolutionary changes in the demand for labour and in the nature of work, the concept of full employment remains valid. But employment must be productive and freely chosen. While the definition of full employment in terms of an overall level or quantity of employment does need not be changed, new issues - including what constitutes an acceptable job, what represents equitable access to employment opportunities and what constitutes employment security - need to be addressed.[56]

2. Economic restructuring and employment

82. In all transition economies changes in ownership structure as a result of privatization led to a decrease in the role of the state sector in employment. State involvement was reduced substantially, and in a very short time the near monopoly of the state over economic activity ceased to exist. The primary rationale for privatization in Eastern Europe and the CIS countries was a quest for economic efficiency and revitalization of the economy. Privatization was also seen as a way to attract the foreign capital necessary for the modernization of a substantial part of the industrial stock still overburdened with "smoke-stack" factories as part of the legacy of central planning. In the mid-1990s the share of the private sector in total employment reached 36 per cent in Bulgaria, 45 per cent in Slovakia, 48 per cent in Romania, 53 per cent in the Czech Republic and more than 60 per cent in Poland.[57] In Russia the share of the non-state sector in total employment more than tripled in the past five years, reaching about 60 per cent in 1995.[58]

83. Following mass privatization growth in employment in the private sector primarily reflected a change in ownership of existing enterprises. Recently, more and more "greenfield" businesses have been set up, and private-sector employment has actually increased. In many cases the growth of the private sector paralleled the break-up of large state-owned enterprises.[59]

84. Table 7.8 shows the shift of jobs across major branches of economic activity, and reveals that in all of the transition economies employment in manufacturing has declined. This shift reflects a structural shift similar to that which is occurring in the developed market economies. The decline in industrial employment began before the transition process but has intensified in the past five years. Within industries the picture differs: in some countries employment in capital- and energy-intensive industries declined less than in labour-intensive industries, such as food or textiles. Along with demand contraction caused by recession, the re-direction of foreign trade towards new partners, largely from the European Union, has been responsible for these shifts. The decline in employment in heavy industry, mining and occasionally agriculture often increased regional employment disparities within countries.

85. In most transition economies employment in the engineering industries (electrical machinery, transport equipment, precision instruments and some other knowledge-intensive industries) declined. In the Russian Federation employment in the engineering industries fell from 9.8 million to 5.3 million between 1989 and 1994, declining from 51.5 per cent of total manufacturing industry employment in 1989, to 41 per cent in 1994.[60] In Bulgaria employment in the engineering industries fell by almost 50 per cent between 1989 and 1993, dropping from 552,900 to 269,400. In Hungary employment declined from 437,000 to 268,000 over the same period.[61] In some sectors employment has adjusted to declines in output, but generally in most countries the decrease in employment has not corresponded to the decrease in output (see table 7.9), leading to a sharp decline in industrial productivity.

86. Employment in the services sector has grown in the transition economies. In the past five years the shares of service sector employment increased by more than 10 per cent in the Czech Republic, Hungary and Slovakia; by the mid-1980s

Table 7.8 Employment changes by sector in selected countries in transition
(Share of total employment)

Country	Agriculture		Industry						Services					
			Engineering		Construction		Total		Health and education		Financial Services and real estate		Total	
	1989	1993	1989	1993	1989	1993	1989	1993	1989	1993	1989	1993	1989	1993
Bulgaria	18 6	22 1	10 6 a	6 8 c	7 0 a	4 2 c	45 3	36 6	10 2 a	9 7 c	0 5 a	0 7 c	36 0	41 3
Czech Republic	10 6	6 9	10 4 b	7 7 e	4 0 b	7 3 e	49 2	44 6	9 7 b	10 0 e	3 8 b	5 3 e	36 0	41 3
Hungary	15 5	9 1		4 5 c	3 6 c	3 4 e	37 8	33 8	9 2 c	9 7 e	3 5 c	3 3 e	46 7	57 1
Latvia	17 4	19 5					37 4	28 5					45 2	52 0
Lithuania	17 9	19 6					42 1	38 0					40 0	42 4
Poland	26 8	25 8			4 0 d	3 9 e	36 8	31 6	8 3 d	8 2 e	0 9 d	1 3 e	36 4	42 6
Romania	27 9	35 9	0 1 b	0 1	4 4 a	4 4	45 1	35 8	5 3 a	5 6	3 0 a	0 5	27 0	28 3
Russian Federation	13 5	14 6	12 0 a	9 1	12 0 a	9 7 f	42 8	39 5 e	15 2 f g	18 0 f g	0 5 a	1 3 f	43 7	45 4
Slovakia	13 8	12 1	7 0 b	5 0 e	4 8 b	5 9 e	46 3	39 8	9 8 b	10 0 e	3 2 b	3 4 e	39 9	48 1

Source: UN/ DESIPA, based on ECE , OECD and national statistics
Note: Agriculture includes forestry, industry total includes construction services total was obtained as residual

a 1990
b 1991
c 1992
d 1993
e 1994
f 1995
g Includes health education, culture and arts, sports, and welfare services

/...

Table 7.9 Output and employment changes in selected transition economies, 1990-95
(Annual percentage change)

Country	1990		1991		1992		1993		1994		1995 a	
	GDP	Employment	GDP	Employment	GDP	Employment	GDP	Employment	GDP	Employment	GDP	Employment
Albania	-13 1	-07	-29 4	-17	60	-19 7	110	-72	74	77	60	41
Bulgaria	-9 1	-6 1	-6 9	-13 0	-5 7	-12 7	-3 7	-1 6	22	-20	25	
Former Czechoslovakia	-1 2		-14 2		-6 4							
Czech Republic		-09		-5 5		-2 6	-0 9	-1 5	26	07	4 8	5 1
Estonia		-20		05	-14 8	-6 3	-7 8	-8 5 b	40	-21 b	30	
Hungary	-3 3	-06	-11 9	26	-3 0	-9 1	-0 8	-5 0 b	29	-22 b	20	-09 b
Latvia		01		-08	-34 9	-3 7	-14 9	-7 4	06	-3 2	-16	-1 5
Lithuania		-26		24	-35 0	-2 6	-17 0	-4 2	15	-5 8	31	
Poland	-11 6	-3 6	-7 0	-5 5	26	-4 0	38	-2 4	50	18	73	11
Romania	-8 2	-10	-12 9	05	-8 8	-3 0	13	-3 8	35	-05	69	
Russian Federation		-04		20	-14 5	-2 5	-8 7	-1 9	-12 6	-3 3	-4 0	-2 3
Slovakia		-08		-7 9		-5 3	-4 1	-0 2	48	-1 8	74	30

Source UN/DESIPA and ECE
a Mid-year for employment data
b End of year

/...

services accounted for the largest share of total employment, ranging from 41 per cent in Bulgaria to 57 per cent in Hungary.[62] The emergence of a market-oriented environment increased demand for a range of new services, such as financial analysis and accounting, sales promotion and investment consulting and marketing. At the same time, the growth of small businesses in areas such as retail trade or catering created new jobs.

87. The share of agriculture in total employment declined substantially only in the Czech Republic, Hungary, Slovakia and Slovenia. In Bulgaria, the Baltic Republics and Romania the share of employment in agriculture increased, possibly because of the privatization of small plots and the increase in the number of individual farms. In Russia agricultural employment rose, primarily because of the inflow of migrants from former republics of the Soviet Union.

88. The advent of structural and institutional transformation based on private property and a market-oriented allocation of resources was incompatible with the previous "soft-budget constraint" on enterprises which was a typical feature of the centrally planned economy. Privatization and restructuring led to changes in the behaviour of enterprises in transition economies although labour hoarding persists in these countries. As table 7.9 shows, the decline in employment has been smaller than the decline in production. In some countries, such as Poland and Hungary, labour shedding did take place. Elsewhere, however, particularly in the CIS countries where bankruptcy mechanisms were weak or non-existent, enterprises retained excess labour. The inadequacy of bankruptcy laws coupled with a lack of proper financial discipline in enterprises also led to the piling up of inter-enterprise arrears, a significant factor in the subsequent building up of wage and tax arrears in most of the countries of the former Soviet Union. In those countries shedding of excess labour may have to await changes in enterprise behaviour. The recovery of output in nearly all of the Central and Eastern European economies that started in 1994/1995 and the marked deceleration in the rate of output decline in Russia and some other CIS countries suggest that the productivity of labour may no longer be declining. But further labour shedding at the enterprise level to enhance international competitiveness remain on the agenda of many transitional economies.[63]

89. Displacement of workers within the formal sector did not automatically lead to a swelling of the ranks of the unemployed in all countries. Following the start of transition there was a significant decline in the previously high activity rates in most of the transition countries. In Central Europe activity rates fell by 5 to 10 percentage points between 1989 and 1995.[64] This trend has continued since then, albeit at a slower pace. The decline in measured activity may reflect preferences (for social or family reasons), diminished economic opportunities, the move to unrecorded employment or unemployment, or the impact of the benefit regime on unrecorded employment.[65] In several transition countries the growing informal sector has been absorbing workers made redundant by the transition, although in most cases the unrecorded jobs have supplemented rather than replaced employment in the formal sector. In Poland, for example, the number of people working in the informal sector has increased markedly since the launching of the economic and political reforms,[66] and hidden employment is believed to be growing across Central Europe, most notably in Hungary.[67]

90. The precipitous drop in real wages (addressed in more detail below) has spurred growth in secondary employment. Many people have preferred to keep their often poorly paid main job, complementing their wages with additional earnings through employment found in the formal or informal sector. In-kind benefits and social services still provided by large enterprises have induced many workers to seek second jobs rather than change jobs. In Russia, for instance, according to a 1994 survey, an estimated 20 per cent of the economically active population held second jobs - seven percentage points more than in 1989 and several times the level typical in developed market economies.[68] A survey covering recent employment trends in Siberia in 1995 confirms the national trend: 17.2 per cent of the employed were holding registered or unofficial second jobs.[69]

91. The role played by small and medium-sized firms should not be overlooked. Although total employment decreased substantially, hiring by small businesses continued to rise. The creation of small private enterprises has been the major source of new jobs, entailing at the same time major modifications in the economic structure. In Hungary between 1989 and 1995, in the total number of enterprises, the share of companies with over 300 employees declined from 19.3 per cent to 0.2 per cent, while the proportion of companies with fewer than 21 people increased from 37.6 per cent to 97.7 per cent.[70] In Poland, 92 per cent of the more than 2 million enterprises employed five or fewer workers, 6 per cent employed 6 to 50 workers, and only 2 per cent employed more than 50 workers in 1995, when small and medium-sized enterprises employed about 60 per cent of the total workforce.[71] In all of the transition economies, the move to a market economy has spearheaded the setting up of small private companies. In the longer run, new jobs created by these primarily labour-intensive companies may offset reductions of employment resulting from labour shedding.

92. High inflation during the first years of transition eroded purchasing power. Real wages declined throughout Eastern Europe after economic reforms were launched (see table 7.10). In the Russian Federation real wages fell by 33 per cent in 1992, and despite some increase in 1993 real wages in 1995 were only 72 per cent of their 1990 level.[72] Similar declines were observed in other transition economies. In Albania and Bulgaria real wages fell by more than 40 per cent in 1991; the decline in Kyrgyzstan and Ukraine was more than 30 per cent. In the Czech Republic, Slovakia and Bulgaria real wages fell by more than 20 per cent. Reversal of this trend took place only in the Czech Republic and Hungary (since 1992) and in Slovenia (since 1993); in the CIS countries prices rise more rapidly than wages. In all of the transition economies the ratio between the minimum wage and the average wage fell (see figure 7.7). Attempts to raise the minimum wage by the rate of inflation have been largely unsuccessful; the available data (which are very scarce) demonstrate that minimum wage to subsistence minimum ratios have declined dramatically in Bulgaria, the Russian Federation and Ukraine (see table 7.11). In many countries cash transfers to households declined steeply in real terms because of budgetary constraints, and the number of people needing assistance, including some who are nominally employed, has increased in all of the transition economies.

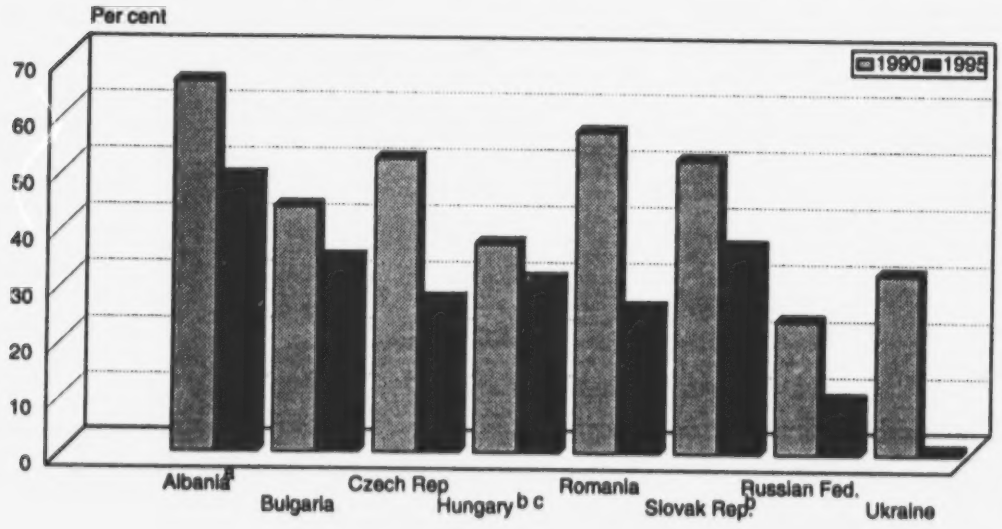
Table 7.10 Annual changes in real wages in selected transition economies, 1989-1995

(Percentage)

Country	1989	1990	1991	1992	1993	1994	1995
Eastern Europe							
Albania		0.37	-42.6	-30.9	-33.8		
Bulgaria		6.2	-42.3	14.9	1.3	-20.5	
Czech Republic	0.9	-5.7	-26.1	13.6	0.1	7.7	4.5
Hungary	2.2	-8.3	-3.1	2.5	2.8	2.45	-7.5
Poland	10.4	-28.8	-5.4	-6.3	2.8	-1.2	-0.2
Romania	3.3	6.1	-19.4	-13.3	-14.9	1.15	
Slovakia	0.9	-5.7	-26.1	7.5	-7.2	4.5	
Slovenia	27.6	-26.5	-23.2	-1.2	11.2	6.0	
CIS							
Belarus	7.2	11.1	4.5	-11.3	-30		
Kazakstan			-10.7	10.8	-11.6	-31.3	
Kyrgyzstan			40.5	-30.3	-51.5	-25.8	
Russian Federation			-3.0	-33.0	4.0	-8.0	
Ukraine			31	-41	-58		
Uzbekistan			-18.3	2.8	6.3	42.1	

Source: UN/DESIPA based on ILO data and national statistics.

Figure 7.7 Ratio of minimum wage to average wage in selected transition economies, 1990 and 1995 (per cent)



Source: UN/DESIPA, based on ILO data.

a Latest data is for 1993.
b 1990 ratio is based on 1991 data.
c Latest data is for 1994.

Table 7.11 Minimum wage to subsistence minimum ratios in selected transition countries, 1989-1995

Country	1989	1990	1991	1992	1993	1994	1995
Albania			35	23	40		
Bulgaria				73.6	77.4	60.1	50.1
Czech Republic				200			90.1
Hungary	97.3	93.8	93.7	98	79.7	78	
Poland	51	47	63	71	64	66	
Romania	67.9	46	42	35.9			
Russian Federation				24	26	17	18
Ukraine		72.7	62.5	30.7	5.1	3	1.2
Slovakia				200	200	198	198

Source: UN/DESIPA based on ILO data and national statistics.

93. Growth of the private sector in transition economies, liberalization of wage policies and phasing out of state-regulated wage scales played a key role in the gradual reversing of wage structure distortions, including a bias in favour of heavy industry. As the level of wages gradually begins to reflect relative labour scarcity and productivity, wage differentials have increased in all of the transition economies. Wage differentiation has increased across firms within an industry, within and between skill groups and within groups with identical industry and human capital characteristics.[73] The evolution of the wage structure has reflected increased returns to schooling for wage earners whose skills are in greater demand, with university graduates commanding a wage premium in many countries.

94. Widening wage differentiation inevitably challenges policy makers to find an appropriate way of protecting the lowest paid workers. The quest for such policies raises unresolved questions about the effectiveness of statutory minimum wages and the desirability of wage indexation.[74]

95. The emergence of a more decentralized labour market in transition economies has been accompanied by substantial de-unionization in most industries. Trade union membership has fallen in all Eastern European countries, although in some cases unions became more effective in guarding the rights of their members.

3. The increase in unemployment

96. Joblessness and the fear of joblessness have reduced wage expectations, leading to social acceptance of real wage cuts and ongoing erosion in real incomes. While recent improvements in economic activity in some countries have helped to contain and even reverse increases in open unemployment, in most Eastern European countries unemployment remains high. In Albania, Bulgaria, Croatia, Hungary, the former Yugoslav Republic of Macedonia, Poland, Slovakia and Slovenia unemployment exceeds 10 per cent (table 7.12). These rates cannot be described as either "natural unemployment rates" or "non-accelerating inflation rates of unemployment" (NAIRU) (see box 7.6) because they are found in environments of generally decelerating inflation and a contracting labour force.

97. Officially registered unemployment in the CIS countries remained low - particularly relative to output, which declined substantially - because of deficiencies in registered unemployment statistics. Comparison of data obtained through labour force surveys (LFS) based on the ILO methodology and registered unemployment received from labour services networks shows that real unemployment in the Russian Federation was almost three times higher than registered unemployment in 1995 (7.5 per cent versus 2.2 per cent). Similar differences were observed in many other CIS countries, primarily because many unemployed individuals were unmotivated to register given the low level of benefits and low expectations regarding labour offices' ability to help them find suitable employment.[75]

98. Only in the Czech Republic (see box 7.3) and the Slovak Republic did survey-based unemployment match registered unemployment. In Romania, Slovenia and Poland registered unemployment exceeded LFS unemployment rates, probably because of the broader definition of unemployment. Figure 7.8 shows labour market slack in selected Eastern European countries.

99. The advent of market-oriented reforms in Eastern Europe facilitated legitimization of many economic activities which often existed alongside the formal sector. While the informal economy was always suspected of providing substantial employment, the paucity of data made estimating the size of the sector difficult. National statistical offices in some transition economies have recently estimated the magnitude of unofficial employment, which is substantial (see box 7.4).

Table 7.12 Registered unemployment in selected transition economies, 1990-1995

(Percentage of the labour force)

Country	1990	1991	1992	1993	1994	1995
Albania	9.8	9.4	26.7	20.2	18	12.9
Armenia	-	-	3.5	6.6	6	8.2
Azerbaijan	-	0.1	0.2	0.3	0.9	1.1
Belarus	-	-	0.5	1.7	2.1	2.8
Bulgaria	1.8	11.5	15.6	16.4	12.8	11.8
Croatia	8.0[a]	14.1	17.8	16.6	17.3	16.8
Czech Republic	0.7	4.1	2.6	3.5	3.2	3
Estonia	-	0.1	1.9	5	5.1	1.8
Georgia	-	-	1	2	3.8	3.1
Hungary	1.7	7.4	12.3	12.1	10.4	11.4
Kazakstan	-	-	0.5	0.6	1	2.1
Kyrgyzstan	-	-	0.1	0.2	0.8	2.9
Latvia	-	-	2.1[b]	5.8	6.5	6.6
Lithuania	-	0.3	1	3.4	4.5	6.1
Moldova	-	-	0.7	0.7	1	1.4
Poland	6.1	11.8	13.6	16.4	16	14.9
Romania	1.3	3.1	8.2	10.4	10.9	8.9
Russian Federation	-	0.1	0.8	1.1	2.1	2.2
Slovakia	1.6	11.8	10.4	14.4	14.8	13.1
Slovenia	5.3[a]	10.1	13.3	15.5	14.2	13.7
Tajikistan	-	-	0.3	1.1	1.8	2
The former Yugoslav Republic of Macedonia	17.1[a]	24.5	26.8	30.3	33.2	35.6
Turkmenistan	-	-	-	-	-	-
Ukraine	-	-	0.3	0.4	0.3	0.3
Uzbekistan	-	-	0.1	0.2	0.3	0.3

Source: UN/DESIPA based on ILO and ECE data.

[a] Annual average.

[b] Percentage of working age population.

Box 7.3 Low unemployment in the Czech Republic

Unlike many other transition economies, where adjustment to new labour market conditions was painful and accompanied by a substantial rise in joblessness, the Czech Republic managed to achieve structural transformation while maintaining low levels of unemployment. Although the open unemployment rate increased to about 5 per cent of the labour force during the initial period of reform, it came down quickly, stabilizing at 3 to 3 1/2 per cent, one of the lowest levels in Europe.

How was the Czech Republic able to keep unemployment low during a period of significant economic strain? A combination of factors was involved. The outflow rate from unemployment in the Czech Republic was four to five times higher than elsewhere in the region,[a] because of a multitude of factors, including enterprise behaviour and wage adjustment. The number of smaller firms rose dramatically, while rapid growth of employment in the services sector offset, to some degree, losses in industry and agriculture.

Although overall unemployment remained low, regional disparities have been large, with double-digit unemployment in Moravia and Central Bohemia. Employment opportunities are highly concentrated, leading to mismatch between the distribution of vacancies and job seekers. These and other labour-market issues have been addressed by effectively implemented active labour market policies.

The foundation for contemporary pro-active labour market policies was laid with the Employment Law, passed in Czechoslovakia in 1991 left in force in the Czech Republic. The Employment Law was based on a three-pronged approach. Job brokerage assistance was granted to every person actively seeking a job, training was provided when necessary and income support was provided in case of unemployment. The level of entitlements was reduced over time, and spending on unemployment compensation remains only slightly higher than spending on public employment services and wage subsidies to private firms.[b] Retraining schemes, the core of active labour market policies, were made widely available and reached many unemployed workers.

One of the most impressive achievements of the Czech Republic was the establishment in 1991 of a legal framework with efficient delivery mechanisms. Labour market policies are administered in a cost-effective way, with very low overhead. Relative to the other transition economies, a higher proportion of Public Employment Service (PES) staff is used for job brokering functions than for unemployment benefit administration, and more PES staff are assigned to tasks that require direct contacts with registered unemployed workers. Each PES staff member works with no more than 30 unemployed clients, for example, a much lower number than in most developed countries, where staff typically handle 200 unemployed.[c] Moreover, as a result of better supervision, PES officials have been able to screen vacancies and job seekers better, helping them to achieve better placement and, possibly, lower unemployment. PES placements in 1993/94 accounted for about half of total exits from the register to jobs, a significant achievement by any standard.[d]

In some respects Czech labour policies were similar to those in other Central European transition economies. A determined effort was made to cut labour supply in order to ease pressure on the labour market. An early retirement scheme was introduced that decreased slightly the pool of employed workers. The personal income tax for those working beyond retirement age was almost doubled, forcing many working pensioners to retire. Many women, whose participation rate was unusually high under central planning, also left the labour force, with female employment falling by 7 per cent between 1992 and 1995. (It remains to be seen whether this contraction represents a positive development.) Negative attitudes towards women's employment also facilitated the decline in labour force participation.[e] Relatively large reductions in output in traditionally female-dominated industries, such as clothing and textiles, together with poor re-employment prospects may have forced some women to leave the labour force.[f]

Wage structures in state enterprises, which account for slightly less than half of total employment in the Czech Republic, were slow to adjust to market conditions. Following the implementation of reform, real wages declined, as they did in other transition economies, preventing a decline in employment. It is possible that the existence of incomes policies in the state sector retarded the adjustment of wage structures. The Government maintained a relatively high level of spending on wage subsidies, often putting social considerations ahead of efficiency criteria. At the same time, unions were unable to have a substantial impact on wages in either the state or private sectors. This situation is beginning to change: facing competition from private firms for highly educated personnel, both current and former (recently privatized) state enterprises have adjusted wage structures to match private offers. Wage structures appear to be moving away from the patterns produced by central planners' preferences towards patterns observed in market economies.[g]

Unlike some other Eastern European aspirants for European Union membership, the Czech Republic did not press for lay-offs and bankruptcies among loss-making enterprises, adopting instead a more moderate approach. Financial conservatism and lack of financial disequilibria at the beginning of transition also helped to achieve macroeconomic stabilization relatively quickly.

While all these factors played roles, one intangible factor should not be overlooked: the adaptability and responsiveness of a highly competent labour force to new sets of incentives.

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[e] Jan Svejnar, "Enterprises and workers in the transition: econometric evidence," American Economic Review, vol. 86, No. 2 (May 1996), p. 124.

[b] See OECD, Review of the Labour Market in the Czech Republic (Paris, OECD, 1995), p. 80.

[c] T. Boeri and M. Burda, "Active labour market policies, job matching and the Czech miracle", European Economic Review, vol. 40, Nos. 3-5 (1996), p. 807.

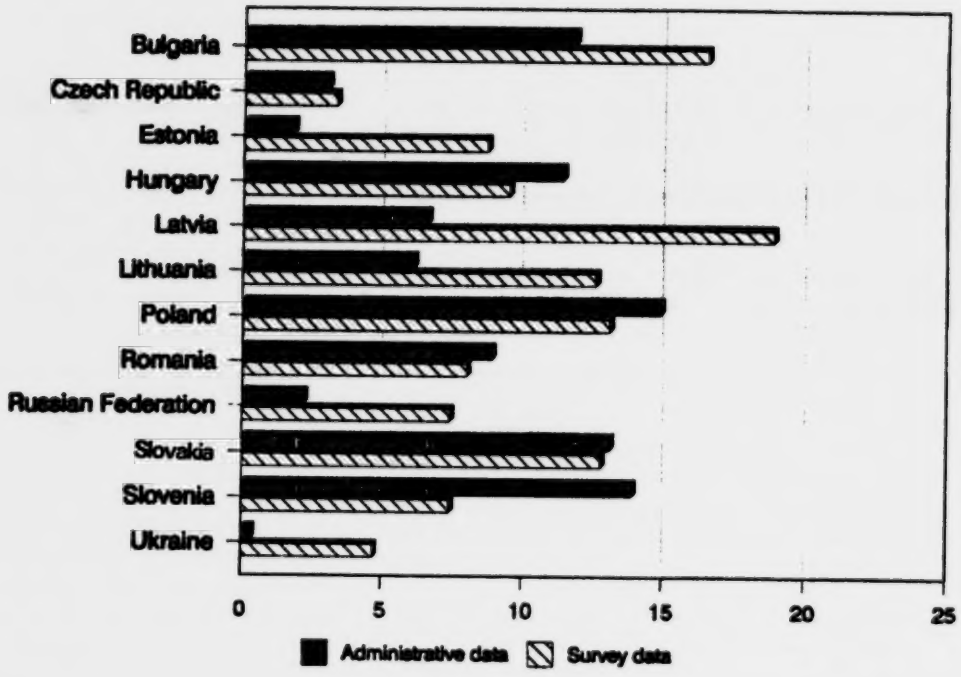
[d] Ibid.

[e] See, for example, M. Ferber, "Czech women in transition", Monthly Labor Review, vol. 117, No. 11, (Washington, D.C., 1994) p. 34.

[f] Review of the Labour Market in the Czech Republic (Paris, OECD, 1995), p. 15.

[g] See, for instance, Robert J. Flanagan, "Wage structures in the Czech economy", IMF Staff Papers, vol. 42, No. 4 (Washington, D.C., 1995) p. 852.

Figure 7.8 Measures of labour market slack in selected economies in transition, 1995
(percentage of the labour force)



Source: DESIPA, based on ILO data.

Box 7.4 Official employment in Poland: a survival solution?

Unregistered employment is widespread in many transition economies, where millions of people work in the informal sector. Workers seek employment in the sector either because they are unable to find work in the formal sector or because they want to supplement income from other employment. Employers turn to the informal market as a source of cheap domestic or foreign labour. At the household level unregistered employment may provide a convenient and inexpensive pair of helping hands. Informal sector employment is important for the national economy because it absorbs surplus labour and reduces the Government's social expenditure. Because the sector is often conducive to crime, including tax evasion, the authorities are frequently hostile towards informal employers. Underground employment may also deprive workers of their rights and privileges since the terms of employment are primarily dictated by the employer. And only the formal sector provides funds to finance public safety nets.

It is difficult to estimate the number of people employed off the record. Periodic labour force surveys (LFS), which have been in use in Poland since May 1992, try to cover all household members above the age of 15, including those who work without contract. Since surveys are conducted solely for statistical purposes, no answers are requested from respondents about the character of their employment contract, and there is no reason for those surveyed not to report their employment. The data obtained from the surveys thus cover workers employed in the informal economy.

To measure informal employment the difference between employment estimated by LFS and employment estimated by the administrative (enterprise) survey is calculated. Additional adjustments need to be made to account for the fact that the LFSs cover only private households, thus excluding workers who live in worker hostels, student housing or other types of housing not covered by the survey.

Unofficial employment was estimated at 1,126,000 or 7.5 per cent of total official employment in Poland in August 1994. Estimates one year later revealed that the number of unofficially employed workers had fallen to 1,011,000 or 6.6 per cent of total official employment.

Collecting reliable information on unregistered employment is critical for policy making at the state and municipal levels. Respondents revealed three major motives for working unofficially: insufficient incomes, lack of official jobs and high taxes on personal incomes which discouraged workers from registering their earnings.

Almost 60 per cent of unofficial workers held more than one job. About a third of respondents worked off the record for less than a month, while more than 20 per cent of respondents worked off the record for at least four months. In terms of gender 64 per cent of unofficial employees were men. In terms of education, although workers with all levels of education found employment in the sector, most of the jobs generated were low-paid jobs for unskilled and low-skilled workers.

Source: Malgorzata Kalaska and Janush Witkowski, Unregistered Employment in Poland in 1995 (Warsaw, Central Statistical Office, 1996).

100. During the first stage of economic transition all countries experienced rising cyclical and structural unemployment as relative prices changed and real output declined. In Poland, the Czech Republic, Slovenia and Slovakia these changes have been reversed only recently, in the CIS the economic recovery has not yet occurred. Some decline in unemployment has taken place in Eastern Europe, possibly as a result of the decrease in cyclical unemployment that has accompanied accelerated economic growth and the rapid expansion of small business sectors. The systemic nature of structural unemployment precludes dramatic declines in unemployment unless resources are shifted to sectors in which economic recovery is accompanied by increases in employment. Even if output in industry is restored to its pre-reform levels, employment may not rise because increases in output are likely to be tied to enhanced labour productivity.[76] In the years to come, the service sector has the potential to be the most important source of new jobs.

101. Employment patterns in many countries have been characterized by an unbalanced regional distribution, largely as a result of the heritage of the command economy of concentrating heavy industry in a few locales. As industrial output contracted, these areas suffered from high unemployment. Regional imbalances in unemployment have been exacerbated by the low labour mobility stemming from an insufficiently developed housing market. In some CIS countries labour mobility has also been constrained by administrative or financial hurdles, such as residence permits or the need to register for settlement in large cities. A resulting low propensity for migration has been a negative factor in alleviating high unemployment since, along with stagnant localities, there exists a number of striving commercial centres with better employment opportunities.

102. In some countries, regional disparities in unemployment have been a function of more effective enforcement of bankruptcy laws. Elsewhere elimination of regional subsidies has been a factor. Often higher than average levels of unemployment stemmed not only from above-average labour shedding but also from a slower creation of jobs in areas where the industrial infrastructure or services are poor. Even in relatively successful countries, such as the Czech Republic (see box 7.3) labour shortages in some areas co-exist with double-digit unemployment in others. Large regional differentials in the incidence of unemployment are not diminishing, according to OECD experts:

districts with the lowest unemployment rates have the greatest employment opportunities, and the disparity between the location of job seekers and the availability of vacancies is increasing, suggesting that long-term unemployment may become a feature of areas with high current levels of unemployment.[77]

103. Tightening of labour market conditions in transition economies has played a role in the increase in migratory flows abroad, although fears of mass migration to the West from Central and Eastern Europe has proved unfounded. International labour migration increased both between transition economies and developed market economies and within the transition economies. Western Europe and North America were the preferred points of destination of migrants from Central and Eastern Europe and the CIS, particularly for highly educated individuals with marketable skills. Most countries in Central and Eastern Europe and the CIS suffered net population losses as a result of migration, with the notable exception of the Russian Federation, where more than 3 million immigrants from the CIS entered the country between 1993 and 1995. At least in the short run international migration is likely to improve functioning of the market and mitigate unemployment,[78] even in the absence of comprehensive migration policies, which most countries in Eastern Europe lack.

104. A rise in legal immigration has been a new feature in some transition economies. Countries that have proceeded farther with reform often attract immigrants from neighbouring transition economies. The Czech Republic, Slovakia and Slovenia, for example, experienced positive net migration in 1994/95. Although Poland experienced net emigration, there has been a recent increase in legal immigration there, too, with about 10,000 work permits granted to foreigners in 1995. Before 1990 such permits were all but non-existent. Another encouraging sign is the large share of well-educated and experienced professionals among these immigrants, many of whom have been exposed to market economies. This "inverse brain drain" will facilitate the transition to a market economy.[79]

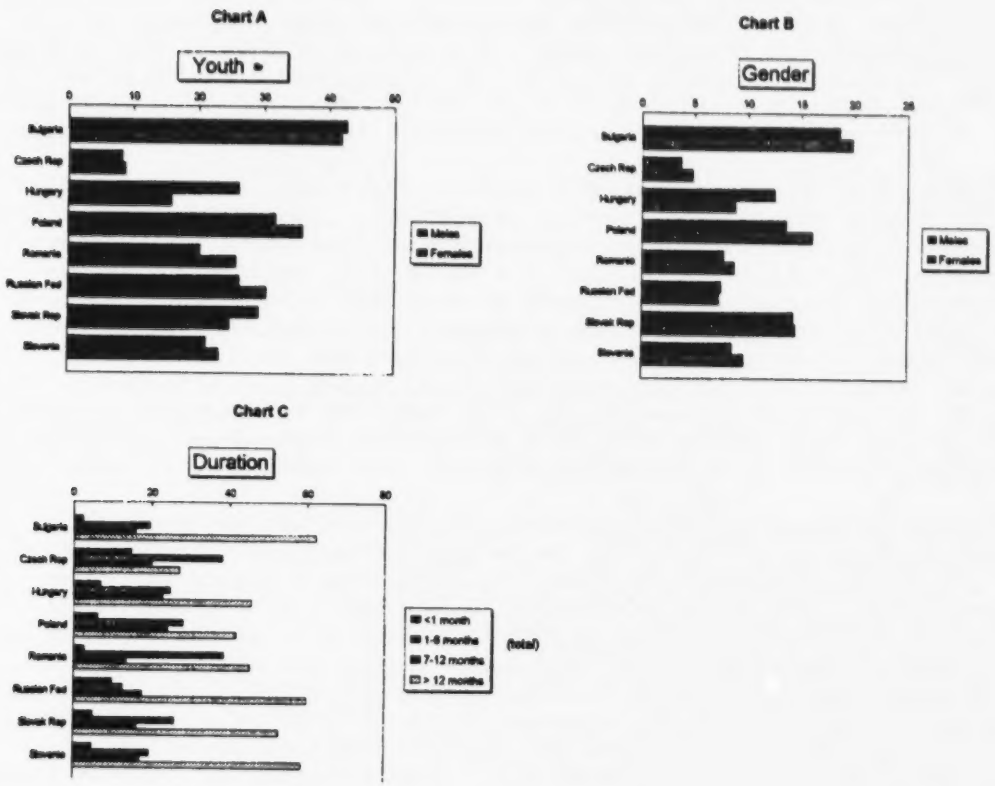
105. As the demand for labour declined in all of the transition economies, labour market segmentation increased, with some social and demographic groups bearing the brunt of restructuring. The break-up of oversized companies and the decline in industrial production increased the withdrawal from the labour market of older workers, typically the first and easiest target of labour shedding. In some countries the number of working pensioners was reduced after tax penalties were introduced to discourage such employment. Reduction in the participation rates of older workers, who had represented 8 to 12 per cent of total employment in many transition economies, was substantial.[80] Elsewhere early retirement schemes were introduced to reduce the labour supply. This option proved costly in terms of both lost production and in pension obligations. For example, in Slovenia, early retirement did not make room for young workers, did not prevent unemployment and was counter-productive.[81] Because the level of pensions in Eastern Europe used to be quite low, the loss of additional income impoverished a substantial segment of the population. How to integrate older workers into the transition process remains a major social challenge.

4. Youth unemployment

106. The incidence of joblessness among different age groups demonstrates that young people (less than 25 years old) have been particularly hard hit. Youth unemployment - including among college and high school graduates - exceeds national averages substantially, often by a factor of two. In Bulgaria, youth unemployment in 1995 was the highest in Eastern Europe (more than 40 per cent of the country's total unemployment), followed by Poland (more than 30 per cent) and Slovakia (by 30 per cent) (chart A of figure 7.9).[82]

107. The employment situation of young people can be explained by a number of factors, most obviously the deep economic crisis which reduced the number of new openings in the labour market. In many companies hiring freezes became widespread, because they preferred to rely on attrition rather than large-scale lay-offs when having to downsize. On the other hand, the fledgling private sector was often more interested in experienced workers, including those already employed in the state sector, rather than in recruiting the unemployed or hiring recent graduates. In addition, in many transition economies the education sector has not been able to keep pace with the market's demands for new skills. As a result there has been a growing mismatch between skills provided through the education system and those required by the market.[83]

Figure 7.9 Unemployment in selected economies in transition, 1994/1995



Source: UN/DESIPA, based on OECD-CCET Labour Market Data Base and national statistics.

a Less than 25 years of age. [Males] – percentage of male labour force; [Female] – percentage of female labour force.

5. The effect of gender on employment

108. In the mid-1990s unemployment rates for women exceeded national averages in most countries (chart B of figure 7.9). In Romania, for example, the unemployment rate for women was twice as high as that for men.[84] Moreover, with the exception of Hungary and the Russian Federation, the share of women among the unemployed in 1995 was more than 50 per cent.

109. A large decrease in labour force participation meant in practice that women were pushed out of the labour force, even though not all ended up in the ranks of the unemployed. Female labour-force participation rates decreased in the early 1990s in all of the "Vysegrad Group" of countries of Central Europe except for Poland. For example, between 1989 and 1995 female participation rates decreased in the Czech Republic from 88.7 per cent to 83.6 per cent, in Hungary from 78.4 per cent to 64.9 per cent and in Slovakia from 80.5 to 71.4 per cent.[85]

110. Ongoing changes in the occupational structure of enterprises often leads to redundancies in many "traditional" female occupations - typically, semi-skilled jobs. In fact, women who were made redundant greatly outnumber men who were made redundant. For example, according to a survey conducted in Hungary, segregation by sex has been common in many enterprises, leaving women workers with lower skill requirements and fewer prospects for promotion. Under the current employment adjustments these low-skilled jobs are at risk of being suppressed or largely reformed, so women may be at higher risk of becoming unemployed.[86] At the same time, women who lose their job are much more likely than men to stay at home, rather than look for another employment opportunity. The "discouraged worker" effect is usually greater for women than for men.[87]

111. Reductions in labour supply have often been achieved at the expense of women, even though such discrimination is sometimes disguised. In Ukraine, for instance, one widespread method of concealing unemployment was to encourage women to extend maternity leave for several (sometimes, two or three) years. In other instances women were making this choice themselves given the prospect of very low incomes if they returned to work, or because they were not under pressure from management to return.[88] Prolonged maternity leave (paid only for the period of time mandated by law) was used for similar purposes in the Russian Federation. Maternity leave was twice the average length in depressed industries, such as textiles and garments.[89] A growing number of employed women were also reported to be on extended maternity leave in Hungary and in other Central European countries.

6. Long-term unemployment

112. Long-term unemployment has been growing in all transition economies. Its persistence, rather than that of frictional joblessness, has become a powerful new factor leading to social exclusion, marginalization and deprivation.

113. Despite some recovery in the output of several Eastern European countries, the share of long-term unemployed in total unemployment grew in every country. At the end of 1995 the long-term unemployed were 31 per cent of all unemployed workers in the Czech Republic, 42 to 47 per cent in Poland and Romania, and more

than 50 per cent everywhere else, including nearly 66 per cent in Bulgaria (chart C, figure 7.9).[90]

114. The probability of finding work in transition economies, as in developed countries, decreases with the length of the unemployment spell (so-called "duration dependence"). As a result, in certain cases (Bulgaria is the most vivid example) the persistence of joblessness leads the unemployed to stop actively looking for jobs. Ultimately, they leave the labour force. In some countries the middle-aged unemployed (people who should be at the peak of their working careers) represent up to one third of the long-term unemployed.[91]

115. Long-term unemployed and redundant workers in all transition economies include an exceptionally high proportion of women, low-educated and unskilled workers. The most vulnerable are people with the lowest skills and education. Thus in order to alleviate long-term unemployment, labour market policies should be targeted to disadvantaged groups, as well as to specific geographic areas.

7. Hidden unemployment

116. Despite visible growth in open unemployment, hidden unemployment remained a serious impediment to improving labour efficiency and productivity. A steep decline in output meant that overemployment at the enterprise level has increased, even compared with the extensive overmanning during central planning. According to the Economic Commission for Europe, in only Hungary, Poland and Slovenia was there a slight decline in excess employment over 1990-1994.[92] In all of the CIS and Baltic States, overemployment increased considerably with the slump in production and slow changes in work organization.

117. Details highlighting hidden unemployment are difficult to come by because of the paucity of statistics. Moreover, the picture varied among countries and among enterprises within the same country. But in the CIS countries labour hoarding was particularly widespread. According to data obtained from ILO labour force surveys, in Russia surplus labour (deemed to be surplus by management) at the level of the enterprise was on average 8 per cent for the industrial workforce.[93] However, including labour input lost because of partial and complete stoppages of production, the percentage of workers on "administrative leave" (largely, a convenient euphemism for unemployment) and the full-time equivalent measure of labour input lost because of enforced short-time working, suppressed unemployment in Russian industry was more than 28 per cent of the workforce in 1995.[94] In Ukraine the situation in 1995 was even worse: 34.4 per cent of all workers were on unpaid leave, that is, officially classified as employed, but with a low probability of recall, and a very substantial proportion (sometimes more than 50 per cent) of employees worked short-time.[95]

118. The reduction of hidden unemployment has become a major policy challenge and an important element in enterprise restructuring. In many aspects this issue has political overtones, because additional inflows of the released workers can further deteriorate already strained labour markets, potentially leading to social unrest. By removing any incentives from enterprises to keep excess labour on board or strictly enforcing bankruptcy provisions, Governments

in transition economies can move forward with the desired restructuring of industry. The counter-weight is that a substantial number of people may be marginalized because of growing poverty - and then increase the financial burden of supporting the new poor.

8. Labour market policies and options

119. While all transition economies made an explicit commitment to promoting the goal of full employment as a basic priority, specific policy options are inevitably modified by the diversity of transition experience, including the sequencing and speed of the national systemic transformation. In many countries, the process of transition itself permitted policy makers to accumulate invaluable practical experience and to obtain improved understanding of the conditions under which various employment-generating policies can work, as well as regarding the linkages between economic growth and employment promotion.

120. Whatever the specific national circumstances of transition economies may be, it is hardly possible to envision a reduction of unemployment and an increase of productive employment without balanced and sustainable economic growth. A sound macroeconomic environment that results from appropriate fiscal and monetary policies can facilitate economic growth and enhance employment promotion. However, many transition economies face a substantial reduction in purchasing power resulting from a decrease in incomes, limited growth of wages and fewer people who are gainfully employed. Since, in many instances, export markets are difficult to penetrate and exports grow only slowly, enterprises in many transition economies face tremendous adjustment problems in the presence of insufficient domestic demand. While poor sales affect the enterprise sector in general, including large companies, they hit small and medium-sized firms particularly hard limiting their expansion and further generation of employment. Low domestic demand contributed to a drastic reduction of investment in most transition economies, jeopardizing economic recovery and reinforcing economic stagnation in the enterprise sector.

121. While there are no miracle solutions to the demand problem at the present stage of transformation in most countries, non-inflationary efforts to increase demand may be beneficial to the creation of an enabling environment for resumed economic growth. In this sense, a combination of measures aimed at preventing the further erosion of incomes is important not only from the social standpoint, to prevent the impoverishment and marginalization of a substantial segment of the population, but also from the standpoint of arresting the decline in domestic demand. In this context, one of the measures should be preventing the further decline of real wages in the budgetary sector of the economy, as well as restoring the purchasing power of pensions and other budgetary transfers.

122. In the longer run, microeconomic policies may have an equally important role for the enhancement of market demand, initially, through enterprise restructuring leading to a reduction in unit costs of production. Lower costs and an improved product mix together with improved quality typically permit enterprises to capture larger segments of the world demand through increased exports. The success of East Asian economies, at least in part explained by a

coherent export-oriented strategy and the excellent performance of domestic enterprises on world markets, shows benefits of global operations for cost reduction and the achievement of economies of scale at the enterprise level. In most transition economies, enterprises can hardly hope for sustainable success on world markets without technological upgrading and new production methods. In this context, much would depend upon the ability of enterprises to innovate and to keep in line with world productivity levels. Foreign investment, as an important source of new technology and production methods, may also enhance export performance and enterprise competitiveness, leading to job promotion. In this respect adoption at the national level of a well-thought-out and coherent industrial policy can improve a country's ability to achieve the desired outcomes.

123. The emergence and functioning of the labour market institutions, such as market-oriented social security systems and wage determination systems, along with better responsiveness and flexibility in the education and training sector regarding new patterns of labour demand, have proven their importance in providing a stable framework for unemployment prevention and employment-generating activities. Further, they are playing an increasing role in determining the most appropriate policy mix. The importance of better information about the functioning of national labour markets, including information regarding skill distribution, mobility and wage expectations, is being more appreciated in national policy formulation, and in enhancing quality of labour market services provided at local or national levels. At the same time, since the process of democratization sweeping all transition economies since the end of the 1980s has powerfully affected governance and civil society there is a widely recognized need for democratic policy-making and social dialogue that allows for participatory control of policies and institutions.

124. In designing and establishing the framework for labour market policies, many transition countries clearly drew on the long experience of developed market economies. A two-tier approach was chosen. First, legal and institutional changes were introduced and a firm legal base was established for social assistance measures for unemployed. Following the adoption of respective labour laws and regulations, almost every country created a network of employment offices to implement these laws. Second, unemployment benefit schemes were adopted, and rules for access were spelled out. Similar to practices in OECD countries, the schemes determined the maximum duration of pay, the replacement ratio (the average unemployment benefit as a percentage of the average wage) and some eligibility criteria. In addition to passive measures (unemployment benefits), most countries in Eastern Europe also adopted active labour market programmes, which included training or retraining of the redundant work force, helping self-employed people to start up new businesses, providing public employment services, and so on.

125. The nature and magnitude of change in the labour market and growing fiscal constraints affected both types of labour policies, forcing necessary corrections and adjustments. The average duration of unemployment has increased dramatically, making the budget burden very heavy for many countries. Therefore, one of the first major adjustments implemented in Eastern Europe was tightening of rules enabling access to benefits. Next came a reduction in the duration of benefits. This step was motivated by empirical evidence showing

that some of the unemployed were postponing their re-entry to the labour market until they ran out of entitlements.[96]

126. In 1995 the unemployed in Eastern Europe could expect to receive unemployment benefits for 6 to 12 months, depending primarily on the length of their previous employment. For example, in Albania, Bulgaria, Hungary, Poland, the Russian Federation and Ukraine the maximum duration of pay was one year; in Belarus, the Czech Republic, Estonia and Lithuania it was six months. The replacement ratio, reduced considerably in most countries in 1991-1994, stabilized in 1994-1995, although there were some exceptions: Hungary reduced it from 34 to 31 per cent and Albania from 43 to 27 per cent, while the Russian Federation increased it from 13 to 21 per cent and Ukraine from 14 to 17 per cent.[97]

127. Compensation for job loss was the largest spending item of all labour market programmes. For example, in Central European countries resources devoted to unemployment compensation ranged from 0.20 to 2.14 per cent of GDP - much larger than the 0.11 per cent of GDP spent on the next largest social-spending categories, including early retirement and public employment services.[98]

128. While relatively high unemployment benefits may be financially unsustainable for a number of countries (or even socially dangerous, because they give rise to benefit dependency or "entitlement effects", leading to a postponement of active job search), very low benefits may breed poverty and the social exclusion of redundant workers. Low benefits proved to be a powerful disincentive to registering as unemployed (underscored by a large discrepancy in administrative and Labour Force Surveys' unemployment figures in such countries as, for example, Russia and Ukraine).

129. Under conditions of economic downturn and a drastic fall in labour demand, the role of active labour market policies is inevitably limited. This conclusion has been largely confirmed by experiences of the developed countries and, later, that of the transition economies. This reason may account for a relatively insignificant part of expenditure on employment policy devoted to active programmes in these countries.

130. Obviously, economic recovery is essential for reducing labour market imbalances in the long run, and thus creating a strong demand for labour. But thoughtful and more active labour market policies targeted at job brokerage, labour force training and retraining, or measures for youth can increase the turnover among the unemployed and improve the job-matching process. One of the difficulties that policy makers have been facing is that while growing unemployment requires some immediate short-term measures, these measures must be compatible with long-term policy targets, including reorganizing enterprises and using labour more productively.

131. The range of active labour market policies varies from country to country. But whatever policies are used, the paramount goal has been to reintegrate marginalized individuals (for example, long-term unemployed or older unskilled workers) into the labour market. It has been difficult to evaluate the success of these programmes, since experimental evaluations, that is, evaluations which require selection of the control and the "treatment" group before the

intervention, were not conducted, and only "quasi-experimental" evaluation of some schemes, such as retraining, were completed in a few countries.[99]

132. The evaluation of training and retraining programmes - one of the most widely chosen options of all active labour market policies - showed them to be not particularly successful in increasing re-employment prospects in transition economies.[100] Moreover, in some cases retraining workers who were already employed to enhance their skills was found to be much more effective than retraining the unemployed, whose employability did not increase.

133. Bulgaria, the Czech Republic, Hungary, Poland and Slovenia offer support to the unemployed to start their own businesses. However, scepticism remains: certain individuals are successful, but according to some experts it is unlikely that such schemes would show up any better in a rigorous outcome/cost analysis than have similar programmes in OECD countries.[101]

134. The mixed results generated from the evaluations of active measures show that unemployment benefits are important, and it is not easy to find substitutes. The transition economies may improve the effectiveness of these programmes in bringing down the unemployment rate, by focusing more carefully on disadvantaged groups, clearly identifying priorities and avoiding the temptation of a "wide-net", which in practice may not be sustainable financially or institutionally (see table 7.13).

135. Taking into account budgetary constraints, an excessively wide range of policy steps may not be feasible. A clear definition of priorities must go hand in hand with better targeting. Particular emphasis should be placed on cost sharing between local and central authorities in implementing employment policies. The specific needs of each local labour market should be carefully identified, while better coordination and monitoring must be put permanently on the agenda.

136. One of the most obvious policy options has been improving the effectiveness of public employment services. These may include a close coordination of job brokering, job counselling and better selection of the participants for active labour market programmes.

137. A relatively untested option in transition economies is greater reliance on public works programmes to generate employment. In many cases they may be preferable to passive programmes. The benefits of public works include those arising from creating public sector assets, avoiding the costs of future long-term unemployment by maintaining attachment to the labour market and reducing the psychological stress of unemployment.[102] The eastern Länder of Germany is a recent example of the wider use of public works programmes during transformation. While this transition from a centrally planned economy to a market economy is a special case since it was facilitated by German reunification and subsequent transfers from the West, public works programmes, together with retraining and subsidies, helped to ease the mass unemployment that followed closures of obsolete or unprofitable enterprises.[103]

Table 7.13 Active labour market policies in transition economies

Policy	Effectiveness and recommendations
Retraining	The probability of getting a job rises with education. Available scientific evaluations, however, do not yield positive results in terms of economic effectiveness (wages and unemployment duration effects). Often given to those who are already best able to find a job. Nevertheless, State-sponsored training may be desirable for those hurt by changes, at least on equity and political grounds. Must develop private provision.
Job matching	Inexpensive and often effective in increasing job placements, though only relevant for a fraction of job-seekers. Important for the long-term unemployed. Even temporary reductions in unemployment claimants can affect job matching by freeing employment service staff and resources for placement activities. Must allow private job exchanges to operate.
Employment subsidies	May consist of grants, interest-free loans, an interest subsidy and so on, and generally provide support to ordinary market-sector employers (notably for temporary jobs offering training to youth and school-leavers). Only minor net effects in industrial countries. Are often associated with "deadweight" losses to the extent that individuals who benefit would have found jobs anyway. Can undermine commitment to reforms. May make sense if narrowly targeted, for example in one-company towns.
Allowances (grants, loans or prepayment of benefits) to support businesses that start up	Net employment effects rarely properly evaluated. Positive effects in terms of business durability and loan repayments in some transition economies. Only apply to a small minority of workers, even in developed countries.
Public employment programmes and public support of apprenticeship	Mixed results. Rarely properly evaluated. Some positive effects of programmes carefully targeted to drop-out minorities and disadvantaged groups (like the long-term unemployed) when mixed with on-the-job training. Administratively intensive and difficult to implement outside of industrialized countries.

Based on: M. Rutkowski, "Labour Market Policies in Transition Economies", MOCT-MOST, N.1, Kluwer Academic Publishers (Bologna, 1996), p. 27; T. Boeri, and M. Burda, "Active labour market policies, job matching and the Czech miracle", European Economic Review, vol. 40, Nos. 3-5 (1996), pp. 805-817; J. Micklewright and G. Nagy, "Labour market policy and the unemployed in Hungary", European Economic Review, vol. 40, Nos. 3-5 (1996), pp. 819-828.

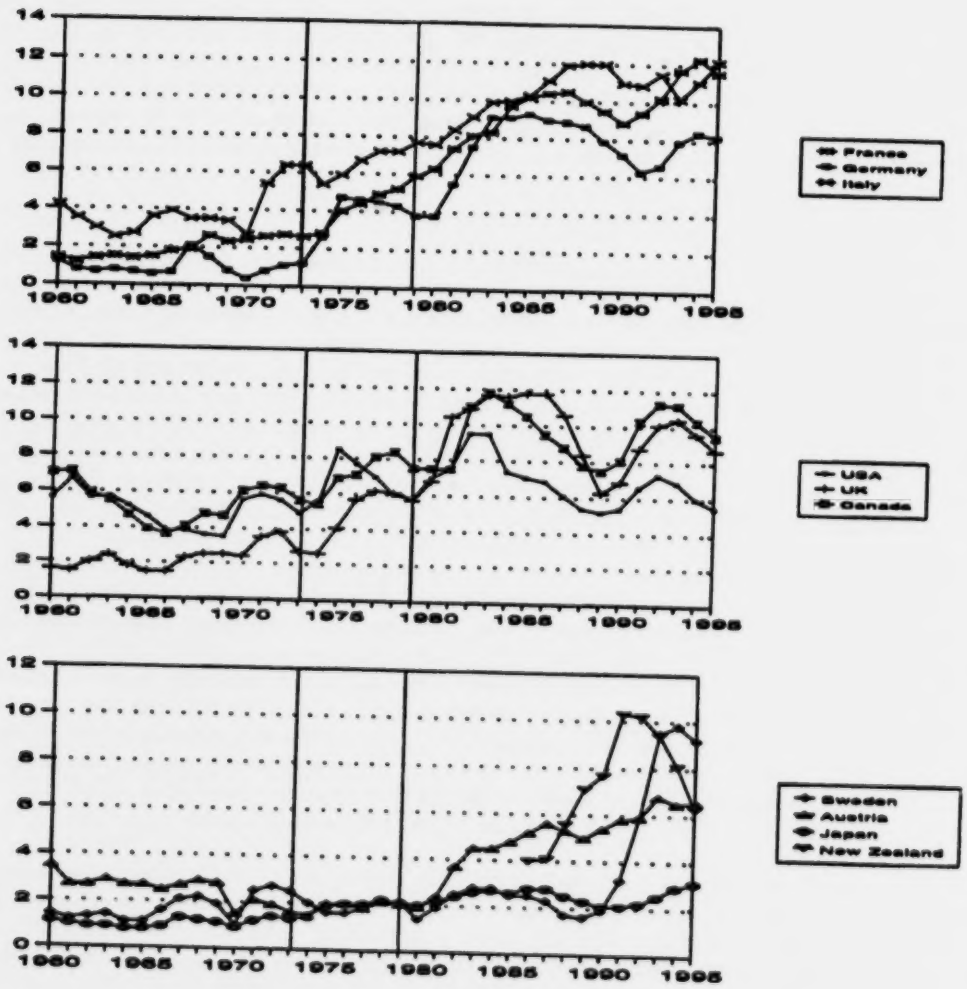
138. A major policy challenge for transition economies facing persistent, widespread unemployment is to reduce high levels of joblessness without losing momentum for market-oriented transformations. This challenge includes promoting job creation in new private sector activities and strengthening the market environment for already established companies. The experience of East Asia should be studied in determining a proper balance between state intervention and market forces. On the other hand, the feasibility of import liberalization must be assessed in each specific case. According to ILO one of the most important policy instruments for moderating the rate of job loss is selective, rather than across-the-board and instantaneous import liberalization, coupled with selective export credits and subsidies to potentially competitive enterprises.[104] In doing so, however, it is important to sustain a market environment and to avoid creating perverse incentives that could delay the necessary restructuring of enterprises.

C. Employment and unemployment in the developed economies

139. The most striking feature of labour markets in the developed economies since the mid-1970s has been the high rate of involuntary unemployment. The developed economies had substantial success in maintaining relatively low unemployment rates in the quarter century after the Second World War - certainly in comparison with the inter-war period, but also in relation to longer-term historical experiences. Unemployment rates rose, however, following supply-side shocks and intensified inflationary pressures in the 1970s, and have remained high since, albeit with substantial cyclical fluctuations. The shift was most marked in Western Europe. In France, Germany and the United Kingdom, for example, the unemployment rate was never above 4 per cent between 1960 and 1975; with the exception of Germany in 1979 and 1980, it has not been below 4 per cent in the two decades since 1975 (figure 7.10). Japan and Sweden, the countries that have been among the most successful in maintaining low rates of unemployment, have watched their unemployment rates move upward, substantially so in Sweden. Even in countries where unemployment rates have improved during the 1980s and 1990s, such as the United States, they remain high compared with the quarter century after the Second World War. Unemployment rates' stubborn refusal to decline, especially in Western Europe, remains one of the most troubling policy issues in the developed economies this decade.

140. The increase in unemployment rates in the 1970s and 1980s was widespread throughout the developed economies. The oil price increases were followed by periods of rising unemployment (figure 7.10). The oil shocks contributed to a slowdown in economic growth and a decline in employment, as they raised costs for producers and consumers, and transferred purchasing power from oil-importing to oil-exporting economies. The oil shocks also contributed to inflation, and the ensuing anti-inflationary policies adopted in a number of countries may have pushed unemployment rates still higher.[105] What is not clear is why unemployment rates remained high and labour productivity growth rates remained low, even as economies became more energy efficient and oil prices fell from the levels they reached in the 1970s (figure 7.11).[106]

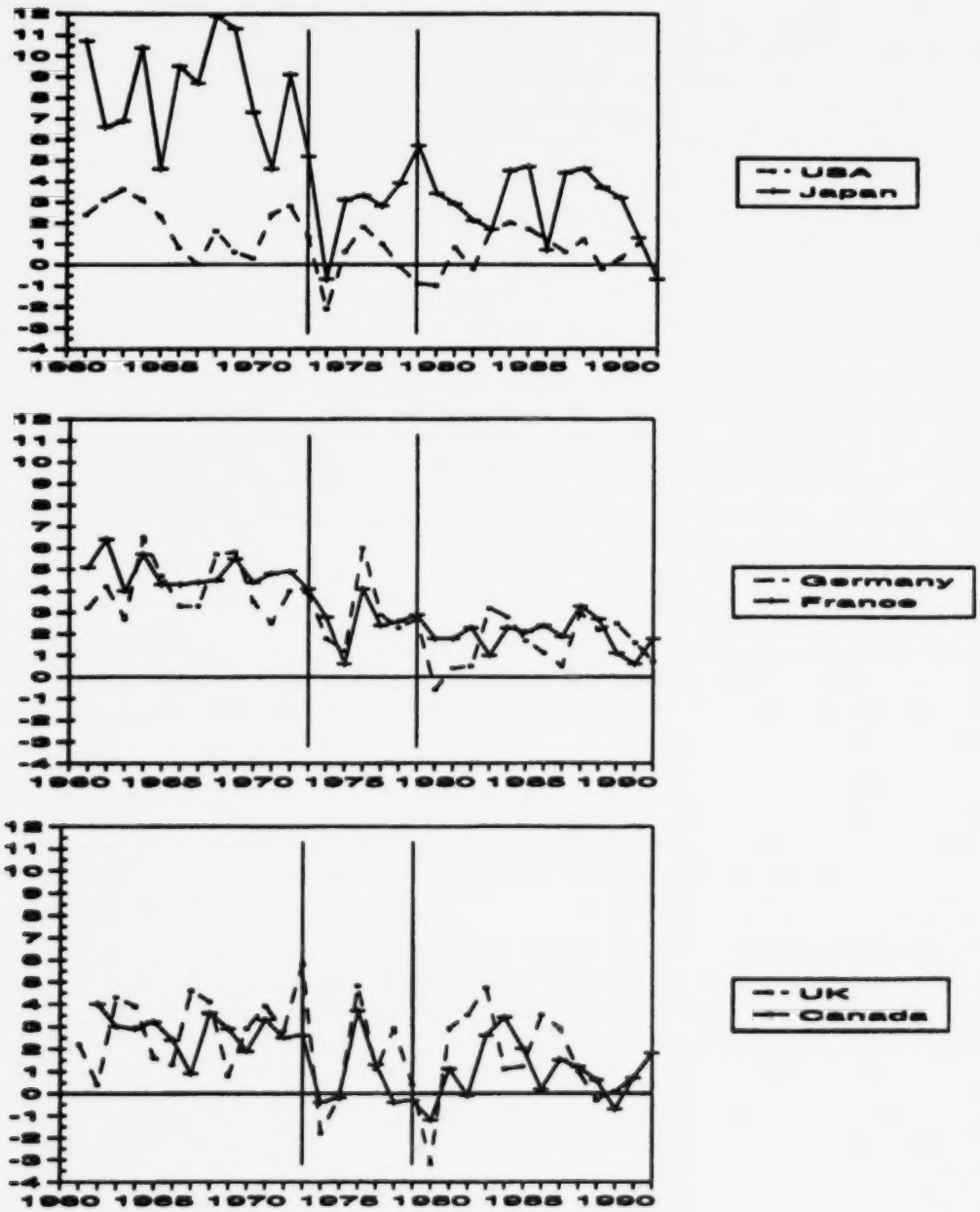
Figure 7.10 Unemployment rates in selected developed economies



Source: ILO, *Yearbook of Labour Statistics* (Geneva, ILO, various years); OECD, *Employment Outlook* (Paris, OECD, 1996); supplemented by national sources.

Note: Vertical lines denote oil price rises of 1973 and 1979.

Figure 7.11 Labour productivity growth rates in selected developed economies



Source: UN/DESIPA, based on OECD International Sectoral Data Base.
Note: Vertical lines denote oil price rises of 1973 and 1979.

141. The decline in labour productivity growth is reflected in lower growth rates of output, employment and real wages and salaries. But the decline in labour productivity growth has also meant that any increase in output requires more labour - the measured elasticity of employment growth relative to GDP growth has risen slightly since the 1970s.[107] Thus, particularly in countries where there has been an expansion of low-wage labour, the decline in productivity growth has been associated with some expansion of employment. This expansion has partially offset the decline in employment growth associated with lower rates of GDP growth. But, there are important differences between Western Europe and the other developed economies. Countries in Western Europe have had lower GDP growth rates than other developed economies since 1973, while also having lower employment elasticities.

142. During the first half of the 1990s, employment growth slowed down somewhat relative to GDP growth, following a recession at the beginning of the decade. In some countries, such as the United States, employment growth was slower and took longer to recover than had been typical of business cycle expansions, leading some observers to describe the recovery as one of "jobless growth". But by 1995 and 1996 employment growth was strong, and the aggregate unemployment rate fell to its lowest point since the peak of the 1980s expansion, and substantially lower than that in the 1970s. In contrast, economies such as France and Germany continued to have difficulty successfully stimulating both GDP growth and employment growth.

143. The annual percentage growth of the labour force was lower in 1974-1995 than in 1960-1973 in a number of countries, including Australia, Canada, Japan, New Zealand and the United States. In all of these countries the growth rate of the working-age populations slowed substantially, which was to some extent a reflection of the end of the "baby-boom" generation's entry into the labour force (table 7.14).

144. This decline was partially offset by an increase in labour force participation rates, especially in Canada and the United States. In Western Europe labour force growth increased in 1974-1995, while remaining substantially below that of the other developed countries; the largest increases occurred in Germany, Ireland, Italy and Portugal.

145. In all countries for which data are available, labour force participation rates for women have risen. In Western Europe as a whole labour force participation rates have stayed fairly stable - increases in the female participation rate have been offset by declines in the male participation rate. The developed economies also experienced a slowdown in the rate of employment growth, reflecting the generally slower growth of aggregate economic activity. Employment growth over the past two decades has been fastest in Australia, Canada, Japan, New Zealand and the United States - and noticeably slower in Western Europe.

Table 7.14 Employment growth, working-age population growth and labour-force participation rates, selected developed economies and regions

Country or region	Employment growth[a]		Working age population growth[a]		Labour-force participation rates		
	1963-73	1974-95	1960-73	1974-95	1960	1973	1995
Australia	2.4	1.6	2.2	1.6	67.5	69.9	74.3
Canada	3.3	1.9	2.3	1.5	60.5	67.6	76.1
Japan	1.3	0.9	1.7	0.7	75.7	71.7	76.5
New Zealand	2.2	0.9	2.0	1.2	63.1	64.6	65.6
United States	2.0	1.8	1.7	1.1	64.5	66.0	77.5
European Community 12[b]	0.3	0.2	0.6	0.6	67.5	65.5	65.7
Former European Free Trade Association	0.5	0.3	0.7	0.5	73.8	72.4	74.0

Source: ILO, World Employment 1996/97: National Policies in a Global Context (Geneva, ILO, 1996) tables 2.1, 2.2.

[a] Average annual percentage change.

[b] Excludes eastern Länder of former German Democratic Republic.

146. The lower productivity growth rates in the developed economies since the early 1970s have contributed to the lower growth rates of real earnings. In the United States, for example, average real wages have stagnated, with average compensation growing slightly when the value of non-wage benefits are included. Average real wages have grown in other developed economies, but at a rate substantially lower than that prior to 1973. In addition, the distribution of labour incomes has widened in many developed economies (table 7.15). This increase in the gap between the top and bottom of the wage distribution is most marked in the United States, where inequality increased as the real wages of those towards the top of the distribution grew while real wages of those at the bottom fell, and the United Kingdom, where real wages at the top grew far more rapidly than real wages at the bottom.[108] During the 1990s the tendency towards growing wage and salary inequality moderated in many countries, although it is too early to tell if this moderation represents the end of a period of rising inequality.[109]

Table 7.15 Trends in the distribution of wage and salary income in selected developed economies

(90/10 ratio)

	1980	1985	1990	1994	Percentage change, 1980-1994
Australia					
Males	2.72	2.61	2.72	2.84	4
Females	2.54	2.64	2.62	2.54	0
Canada					
Males	3.46[a]	4.03[b]	3.99	3.77	9
Females	3.73[a]	4.24[b]	3.99	4.01	8
France					
Males	3.37	3.35	3.45	3.43	2
Females	2.72	2.64	2.86	2.94	8
Germany[c]					
Males	2.40[a]	2.36	2.31	2.25[d]	-6
Females	2.64[a]	2.51	2.40	2.26[d]	-14
Italy					
Males	2.33	2.30[e]	2.17[f]	2.64[d]	13
Females	2.66	2.34[e]	2.17[f]	2.80[d]	5
Japan					
Males	2.61	2.77	2.84	2.77	6
Females	2.17	2.28	2.30	2.24	3
Sweden					
Males	2.11	2.13	2.07	2.20[a]	4
Females	1.65	1.74	1.71	1.82[a]	10
United Kingdom					
Males	2.51	2.80	3.11	3.24	29
Females	2.34	2.49	2.86	3.00	28
United States					
Males	3.26	3.73	3.96	4.28	31
Females	2.92	3.35	3.67	4.02	38

Source: UN/DESIPA from OECD data.

Note: 90/10 refers to the ratio of the earnings of the ninetieth percentile worker to the earnings of the tenth percentile worker.

[a] 1981.

[b] 1986.

[c] Excludes five eastern Länder.

[d] 1993.

[e] 1984.

[f] 1989.

1. Where the jobs are

147. In the developed economies employment is increasingly concentrated in service-sector activities, and in occupations that are classified as services, even if they occur within manufacturing or primary product industries, such as marketing, legal or financial activities. The share of agricultural, production and transport workers in total employment in the United States fell from 39.3 to 29 per cent between 1970 and 1991, from 40.4 to 29.9 per cent in Canada and from 56 to 41.7 per cent in Japan. A similar shift occurred in Western Europe after 1984 (table 7.16). The growth rates of employment in these occupational categories were negative over the period. The occupational categories that grew most rapidly were professional, technical and managerial.

148. The growth of employment in service activities reflects a number of long-term trends in the developed economies. Primary product industries have become less important as generators of employment for some time. More recently, employment growth in manufacturing industries has been declining in relative importance, and appears to be declining absolutely in many developed economies. These changes reflect, in part, productivity gains in agriculture and manufacturing that permit output to grow more rapidly than employment, and contribute to rising per capita income. In turn, countries with high and rising income levels tend to expand their demand for services - entertainment, household help, business services - more rapidly than their demand for manufactured goods or primary products. At the same time that professional and managerial employment has expanded, growth rates among sales and clerical workers, and workers in services establishments such as restaurants, have been high in many developed economies. The demand for high-end services is driven by productivity increases and expanding markets, as for example, in the computer industry, where rapid technological change permits cost reductions, quality improvements, growing markets, expanding employment and relatively high wages.[110] Low-end services, on the other hand, have low productivity growth, and employment growth is predicated on maintaining low wages. In some instances low wages may generate incentives that foster employment growth at the expense of capital investment and organizational change, thereby reducing the scope for future productivity gains.[111]

149. The growing importance of services occupations may also be related to changes in the organization of production that affect employment relations within firms. In response to a much more competitive environment, many firms have sought to rationalize their operations - and have become "leaner" and more competitive in the process. These changes have three sources. One is technical change that expands the use of capital and certain categories of skilled labour. In a number of manufacturing and service industries, including durable goods manufacturing, publishing and banking, the greater use of computers and computer-related technologies have, in some cases, led to a reduction in labour requirements.[112]

Table 7.16 Changes in the occupational composition of employment in selected developed economies and regions

(per cent)

Country or region	Share in total employment[a]			Change in share
	1970	1984	1991	1970-1991[b]
Canada[b]				
Professional and managerial	20.2	27.1	31.7	11.5
Clerical, sales and services	29.3	40.3	39.4	10.1
Agricultural	6.5	5.4	4.4	-2.1
Production and transport	33.9	27.1	24.5	-9.5
Japan				
Professional and managerial	8.4	12.9	15.5	7.1
Clerical, sales and services	37.9	42.3	42.4	4.5
Agricultural	17.3	8.7	6.7	-10.6
Production and transport	38.7	36.7	35.0	-3.7
United States				
Professional and managerial	24.7	26.7	29.8	5.1
Clerical, sales and services	36.0	40.5	41.3	5.3
Agricultural	4.0	3.4	3.0	-1.0
Production and transport	35.3	28.5	26.0	-9.3
Twelve European countries[c]				
Professional and managerial	n.a.	18.0	19.8	1.8[d]
Clerical, sales and services	n.a.	38.7	40.4	1.7[d]
Agricultural	n.a.	7.8	5.1	-2.7[d]
Production and transport	n.a.	34.2	32.2	2.0[d]

Source: ILO, World Employment 1996/97: National Policies in a Global Context (Geneva, ILO, 1996), table 2.7.

Note: n.a. - not available.

[a] Totals may not add to 100 due to some workers being not classifiable.

[b] Data for 1973, not 1970.

[c] Austria, Belgium, Denmark, Finland, Germany, Greece, Ireland, the Netherlands, Norway, Portugal, Spain and Sweden. Data for 1970 and 1984 refers to former West Germany; data for 1991 include the eastern Länder.

[d] 1984-1991 for the 12 countries.

150. A second source of firm-level innovation is organizational change that introduces greater flexibility in the employment of both capital and labour. Lean production techniques, originating in Japan in the 1950s, have spread to other developed countries, and even to some developing countries. Lean production emphasizes just-in-time inventory management with a drastic reduction in materials on hand, greater flexibility within production processes with an enhanced emphasis on the quality of output, and more autonomy to workers.[113]

151. A third factor pushing firms to alter employment relations is change in international competitive conditions which lead some firms to shift key elements of production out of developed-country locations, often retaining only certain managerial and administrative functions in the home country. One result of these changes is that services activities within manufacturing and primary products industries have grown in importance. Thus, managerial activities, such as marketing, finance, legal and supervisory activities, have become more important sources of value added in many non-service industries. In some instances this change has led to greater utilization of service occupations within firms; in others, contracting out has become the rule, as shown by the expansion of law firms, accounting firms, advertising agencies, business consulting firms, import-export specialists and so on.

152. The new environment has also changed worker-management relations.[114] The share of the labour force represented by unions, as well as the bargaining strength of unions, has declined in many countries, partly because of the shift away from manufacturing. In addition, subcontracting, whether domestic or foreign, can involve a shift from union to non-union firms; inward FDI is also often found in non-union operations. Traditional modes of employment relations are being altered. The lifetime employment system in Japan, found in the largest firms and in government, is coming under pressure, as intensified international competition, a higher value of the yen and slower GDP growth is pushing firms to look more closely at their labour practices.[115] Japanese firms are increasing their use of part-time and temporary workers, and beginning to utilize explicit, fixed-length contracts in some professional appointments.[116] In other instances competition-driven strategies have focused more on cost minimization rather than technological or organizational innovations, leaving workers in a weaker position with respect to wage gains and workplace protections.[117] The expansion of supervisory activities may be evidence of attempts by firms to impose stricter cost controls and work-force discipline on large organizations.[118]

153. The debates on the employment impacts of these changes, especially in the United States, Japan and some countries in Western Europe, have focused on the effects of "downsizing" and "hollowing out", and have highlighted numerous examples of groups whose employment situations have been drastically altered by such firm-level changes. More aggregative evidence, however, has not yielded a clear picture. In Japan, for example, the hollowing out phenomenon is not likely to be large enough to significantly affect the level of unemployment.[119] A number of firms that have been downsized and operate with reduced labour requirements have become more competitive and are better poised for future growth in output and employment. Examples can be found in the auto industry in both the United Kingdom and the United States, where domestic producers collaborating with foreign transplants have created a more efficient industry,

compared with that of the 1970s and 1980s.[120] In other instances, downsizing has had little or no effect on a firm's competitive position.

154. Downsizing has affected primarily managerial and professional workers, and semi-skilled and skilled production workers. These groups of workers had previously anticipated careers that were relatively stable. With income distributions widening in some countries, greater instability in career prospects also implies greater uncertainty as to income prospects. Thus employees who are forced to shift jobs or careers may find themselves with substantially reduced lifetime income prospects. Even if downsizing has little impact on aggregate unemployment, it may affect people's attitudes towards their future well-being.

155. The expansion of employment in services and the relative, and in some cases absolute, decline of employment in manufacturing is frequently cited as a source of the slowdown in productivity growth in the developed economies. Service activities are thought to have little scope for gains in productivity. An increase in the relative importance of services in an economy, then, would exert a drag on productivity growth and, consequently, real incomes, in the economy as a whole. In many service occupations, such as sales and clerical work, productivity gains are difficult to achieve, and these occupational categories tend to receive relatively low wages (table 7.17). In part, however, this argument reflects a problem of measurement. Most government services are not sold on markets and do not have a price - therefore, there is no way to measure how much they add to output beyond their production costs. Research and development activities can generate substantial external benefits, often over a considerable period of time. Some of the contribution to productivity improvement from research and development takes the form of knowledge that is widely available and is not priced, even though it may show up in the form of productivity gains elsewhere in the economy.

156. Services, however, do not function in isolation. As with all productive inputs, they contribute to output depending on how they are combined with other inputs. Research and development, when combined with manufacturing and marketing resources, can make substantial contributions to output growth. For example, the linking of technical advances in computers with the writing of software has been behind the rapid growth of this industry. Software is often customized to conform to the hardware configurations of a particular enterprise, creating an imbedded linkage between goods and services. Moreover, a considerable amount of software is either written or modified within an enterprise - another example of an input that has no market price but can improve productivity.

157. When combined with communications technologies, entertainment services can reach wider audiences, which explains why entertainers and athletes are able to command high and rising incomes, even though their activity has not changed. Similar considerations may apply to the considerable income growth of corporate executives and many professionals - because markets have become more global, their activities have a longer reach.[121]

Table 7.17

Concentration of low-paid employment in services occupations in selected developed countries

Occupation	Australia 1995	Austria 1993	Canada 1994	France 1995	Germany 1994	New Zealand 1994/95	Switzer-land 1995	United Kingdom 1995	United States 1994/95
Professional/ technical	0.3	0.3	0.6	0.2	0.4	0.4	0.4	0.2	0.3
Managers	0.7	0.1	0.6	0.1	0.0	0.5	0.2	0.3	0.4
Clerical	0.9	0.7	1.4	0.5	0.9	0.7	1.0	1.5	1.2
Sales	n.a.	1.8	1.3	3.0	1.7	2.5	n.a.	2.0	1.1
Personnel services	1.5	2.1	1.9	2.9	2.0	1.9	2.9	2.0	2.1

Source: OECD, OECD Employment Outlook (Paris, OECD, 1996), table 3.2, part C, p. 74.

Note: Concentration is the incidence of low-paid employment in each occupational category divided by the economy-wide incidence of low-paid employment. Low-paid employment is defined as two thirds of the median wage and below.

n.a. - not available.

2. Where the workers are

158. The main trends in the labour forces of the developed economies include a decline in the labour force participation, and an increase in unemployment rates, among the young, and a substantial increase in the labour force participation of women, along with a decline in the labour force participation of men.

159. Employment, labour force participation and unemployment patterns among the young (usually considered to be under age 25) have raised concern in a number of developed economies. From the 1980s to the mid-1990s employment and participation rates have declined, especially for young men, while unemployment rates have remained high in most developed economies. While the decline in employment and participation is partly the result of greater educational attainment, which reduces the time young people spend in the labour force, the absence of significant growth in the demand for young people's labour is the primary cause of their relatively weak performance.[122]

160. For a number of developed countries, including Australia, Belgium, France, Italy, Japan, the Netherlands, Norway, Sweden, the United Kingdom and the United States, youth unemployment rates are typically twice or greater the unemployment rates of prime age adults.[123] Between 1979 and 1994 youth unemployment rates increased in almost every developed economy, the exceptions being Denmark, for young women, and the Netherlands. Changes in youth unemployment rates do not appear to be linked with the unemployment rates of those over 25, and appears to be of shorter average duration. Young women tend to have greater participation

rates and lower unemployment rates than young men, reflecting overall improvements in women's labour market position in most developed economies.

161. The youth labour supply has not increased as rapidly in recent years as in earlier periods because of demographic changes and declines in participation rates. Real earnings, however, have not increased relative to those of adult workers, suggesting that the demand for young workers has been weak. Employment of young workers tends to be concentrated at the low-wage end of the services sector; the general shift of output away from manufacturing may have removed or reduced an important source of employment for young workers. These shifts may also have intensified labour market competition between young workers and those over 25, as labour-shedding in manufacturing may have forced more adult workers to seek lower-end service sector employment.

162. Employment among young people is often a step in the transition from school to full-time participation in the labour force. Young people are likely to move between work and school, and exhibit a high degree of mobility among jobs and across regions. It might be expected, then, that their participation and employment rates would be lower than those of adults over age 25. At the same time, labour force experience is an important source of human capital acquisition. Especially for young people who receive little or no advanced education, poor or erratic employment experiences are often precursors to similar employment and earning experiences later in life.[124] Also, young people who come from homes where at least one adult is employed tend to have more stable employment records than individuals who come from homes where the adults are unemployed. Enhancing employment options for young people could be one of a set of policies aimed at making long-term improvements in overall labour market performance in developed economies.

163. A second important feature of employment growth in the developed economies has been the substantial rise in women's employment (table 7.18). Except for Denmark and Finland, where the labour force participation rates of men and women were within four percentage points of each other in 1993, men's labour force participation remains substantially higher than that of women in the countries where comparable data are available. But that gap has narrowed. In many of these countries the labour force participation rates of men have fallen, but by less than the amount by which women's labour force participation has risen. Thus overall labour participation rates have grown. The contrasting behaviour of men and women reflects the extensive growth of service industries, in which women's employment has been heaviest, and the slower growth, or decline, of manufacturing industries, which have traditionally employed more men. At the same time, firm-level rationalizations in manufacturing industries may have affected men more than women, especially in older age groups. This process may affect women more in the future, as service industries also undergo rationalization.

Table 7.18

Labour force participation rates of men and women in selected developed countries

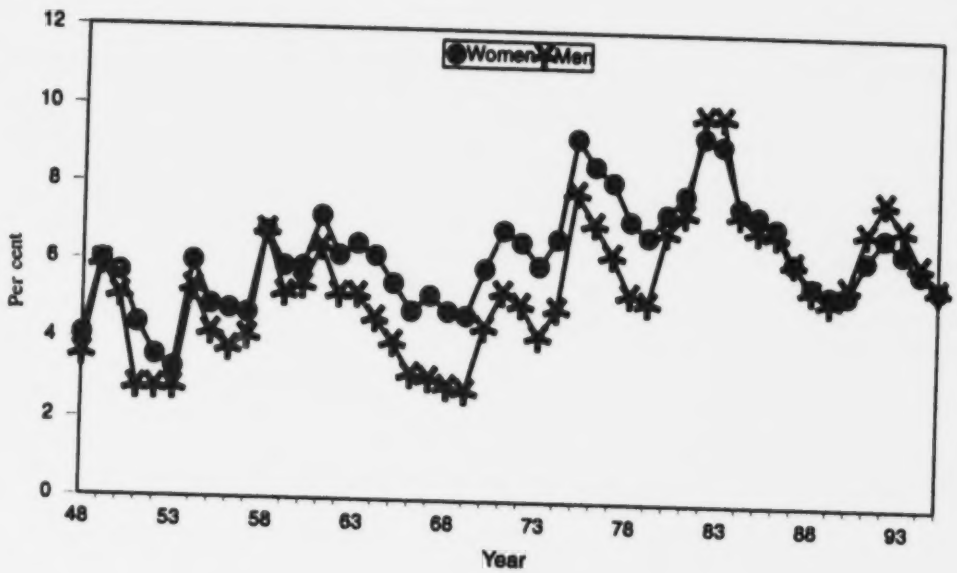
Country	Men		Women	
	1973	1993	1973	1993
Denmark	89.6	82.0	61.9	78.3
Finland	88.1	79.3	62.6	75.7
France	85.2	74.5	50.1	59.0
Germany[a]	89.6	78.6	50.3	61.4
Italy	85.1	74.8	33.7	43.3
Japan	90.1	90.2	54.0	61.8
Norway	80.0	77.6	63.6	70.0
Spain	92.9	74.5	33.4	42.8
Sweden	83.0	80.8	48.5	58.9
United Kingdom	93.0	84.0	53.2	65.3
United States	86.2	84.9	51.1	69.1

Source: ILO, World Employment 1996/97: National Policies in a Global Context (Geneva, ILO, 1996), table 2.2.

[a] Data for 1993 include the eastern Länder.

164. While there remains a substantial income gap between men and women with similar skills and experience, performing similar jobs, this gap has narrowed. In the United States, for example, the median hourly real wage for women relative to that for men rose from 65 per cent in 1973 to 78 per cent in 1993.[125] In most countries, the distribution of wages and salaries among women is more equal than that among men (table 7.15). But, the degree of inequality, and changes in inequality over time, tend to be more similar for men and women within a country than across countries. This suggests that national wage-setting institutions are powerful influences on wage and salary determination for both men and women.[126] As women have become more fully integrated into the labour force, their experience with employment and unemployment more closely mirrors that of men. In the United States until the 1980s, women's unemployment rates were considerably higher than those of men, reflecting the use of women as a contingent labour force on the part of many employers and a weak attachment to the labour force on the part of many women. More recently, women's unemployment rates have been lower than men's and have taken on a similar cyclical pattern (figure 7.12). The more recent pattern reflects the more "regular" nature of women's employment, as well as the growing tendency to rationalize service sector activities.

Figure 7.12 Unemployment rates for males and females, United States



Source: *Economic Report of the President* (Washington, D.C., U.S. Government Printing Office, various years).

3. Behind the unemployment numbers

165. A country's unemployment rate is an important indicator of how successful it is in employing its labour force. But the dichotomous choice between employment and unemployment does not fully capture the range of outcomes emanating from a dynamic labour market. There are a variety of solutions that emerge when an economy is unable to fully employ its adult population. Additional measures of how labour is used can provide important information regarding the functioning of labour markets in developed economies.

166. Over the past two decades the share of total employment that is part-time has increased (table 7.19). In 1995, 10 developed economies employed more than 20 per cent of their labour force part-time. The existence of part-time employment can be evidence of labour market flexibility, in that it allows individuals to align their work requirement more closely with their personal needs, such as child care or education. Spells outside of the labour force may be an element of the frictions inherent in a market economy, as individuals need time to obtain retraining, or move to a new location, in response to changing patterns of economic activity. However, many people work part-time out of necessity, not choice, and would prefer full-time work. A substantial share of part-time employment is involuntary - the result of companies seeking to reduce their labour costs, and employees having few alternatives.

167. Between 68 and 87 per cent of part-time workers in the developed economies are women. The growth of part-time work may reflect both a greater sensitivity on the part of employers to workers with child-care responsibilities, as well as a continuation of women's role as contingent workers. Part-time work has been made more feasible by major technical advances in communications and information processing, although the long-term importance of such phenomena as "telecommuting" has yet to be verified.[127]

168. Temporary employment accounts for up to 10 per cent of wage and salary employment in some developed economies - their incidence is rising in some countries and falling in others (table 7.19). Definitional differences, however, make cross-country comparisons difficult.[128] In general, temporary employment refers to casual or short-term, fixed-contract jobs, often obtained through an agency specializing in temporary help placement. Temporary workers may work full time for a period of time, then not work until they accept or are placed in another job. As in the case of part-time employment, temporary employment can improve the fit between job requirements and the varying needs of members of the labour force. Women and younger workers tend to be overrepresented among temporary workers relative to their share of the labour force. The primary motive for temporary employment, however, is derived from firms seeking to reduce their labour costs and increase their flexibility in managing human resources in response to intensified price competition and rising fixed costs of labour.[129] Thus a significant portion of temporary employment is likely to be involuntary. As with part-time employment, temporary jobs offer lower levels of ancillary benefits and fewer employment rights than full-time employment.

Table 7.19

Part-time and temporary employment in selected developed countries

(Percentage of total employment)

Country	Part-time employment			Women's share	Temporary employment[a]	
	1973	1979	1995	1995	1983	1993
Australia	11.9	15.9	24.8	74.4	n.a.	n.a.
Canada	9.7	13.8	18.6	68.8	n.a.	n.a.
Denmark	n.a.	22.7	21.6	73.3	12.5[c]	10.7
France	5.9	8.1	15.6	82.0	3.3	10.0
Germany[b]	10.1	11.4	16.3	87.4	9.9[c]	10.2
Iceland	n.a.	n.a.	30.7	78.6	n.a.	n.a.
Italy	6.4	5.3	6.4	70.6	6.6	5.8
Japan	13.9	15.4	20.1	70.1	10.3	10.8[d]
Netherlands	n.a.	16.6	37.4	73.6	5.8	10.0
New Zealand	11.2	13.9	21.2	75.7	n.a.	n.a.
Norway	23.0	27.3	26.5	80.8	n.a.	n.a.
Sweden	n.a.	23.6	24.3	80.1	n.a.	n.a.
Switzerland	n.a.	n.a.	28.3	82.7	n.a.	n.a.
United Kingdom	16.0	16.4	24.1	82.3	5.5	5.7
United States	15.6	16.4	18.6	68.0	n.a.	n.a.

Source: OECD, OECD Employment Outlook (Paris, OECD, July 1996), table E, ILO, World Employment 1996/97: National Policies in a Global Context (Geneva, ILO, 1996), table 2.6.

[a] Share of wage and salary employment.

[b] Data for 1993 and 1995 include eastern Länder.

[c] 1984.

[d] 1989.

169. Part-time and temporary employment allow firms greater flexibility in allocating labour time and controlling labour costs. There have been a number of proposals to make such practices more formal, in order to share working hours and reduce unemployment.[130] In Germany shorter working hours and some job sharing was agreed on in labour-management negotiations begun in 1985, and explicitly adopted by some companies, most notably by Volkswagen in 1994. In 1984-1989 reductions in standard hours of work in manufacturing were associated with a small increase in employment and hourly earnings, keeping monthly earnings stable.[131] There is also some evidence that the decline in hours was associated with a fall in output. One of the issues regarding work sharing is the impact it has on capacity utilization and investment demand. To the extent that shorter hours lead to lower utilization, work sharing could raise capital costs and depress output.[132] At the same time, the success of any work sharing scheme may depend on the degree of expansion of the economy as a whole.

170. Discouraged workers - those not employed and not seeking employment - are not considered part of the labour force, and therefore are not counted as either employed or unemployed. Many of these workers, however, have suspended their job search because of extremely poor prospects; they would re-enter the labour force if employment prospects were brighter.[133] Of course, some workers participate in the informal economy, earning income "off the books", while reporting themselves as unemployed or out of the labour force. Some may be eligible for retirement or other safety net benefits; indeed, firms have offered early retirement benefits as a component of downsizing. Short-term changes in the measured labour force stemming from the exit and entry of discouraged workers often makes it difficult to interpret the economic significance of monthly or quarterly unemployment rate data.

171. Research at the United States Department of Labor has attempted to quantify the effects of involuntary, part-time employment and discouraged workers.[134] In nine developed economies rates of underutilization are higher than rates of unemployment, and in some, especially Italy, Japan and Sweden, the differences are considerable (table 7.20). Also, when underutilization rates are compared across countries, differences narrow - the gap between Western European and other economies is not as great as when the unemployment rate is used as the measure of comparison.

Table 7.20
Alternative unemployment indicators for selected developed countries, 1983-1993
(average rates for available years)

Country	Years	U[a]	U1[b]	U2[c]	U3[d]
Australia	1983-1993	8.6	11.2	12.4	5.3
Canada	1983-1993	9.8	12.3	13.0	4.6
France	1983-1993	10.0	12.3	12.7[e]	8.1
Germany[f]	1985-1993	6.2	6.6	n.a.	5.0
Italy	1986-1993	8.0	10.2	15.9	7.3
Japan	1984-1993	2.4	3.3	7.3	1.2
Netherlands[g]	1983,1985 1987-1991	9.4	11.7	12.4	7.6
Sweden	1987-1993	3.6	6.7	7.5	1.7
United Kingdom	1983-1993	9.9	11.7	12.3	7.5
United States	1983-1993	6.8	9.2	10.1	2.2
Dispersion[h]		0.36	0.32	0.24	0.52

Source: Constance Sorrentino, "International unemployment indicators, 1983-93," *Monthly Labor Review*, vol. 118, no. 8 (August 1995), table 2.

Notes: n.a. - not available.

a Unemployment rate conventionally defined.

b U plus one-half of part-time job seekers and one-half of persons working part-time for economic reasons added to numerator, less one-half of the part-time labour force from the denominator.

c U1 plus discouraged workers added to both numerator and denominator.

d Long-duration unemployment - persons unemployed 13 weeks or longer.

e 1989-93.

f Includes eastern Länder after 1991.

g 1983, 1984, 1985, 1987-1991

h Dispersion is the standard deviation divided by the mean.

4. Unemployment, inequality and the structure of labour markets

172. In the two decades since the first oil shock of the early 1970s, most developed economies have experienced high unemployment, slowly growing productivity, slowly growing or stagnating real wages, and stable or widening wage gaps. These outcomes are generally seen as inadequate, especially when compared with the outcomes attained prior to the 1973 oil price shock. A number of hypotheses have been put forward to explain these differences. The most widely discussed are globalization, skill-biased technical change and rigidities in labour market institutions.

173. The globalization explanation comes as declining costs in transportation and communications and a lowering of national barriers to the movement of final products, productive inputs and finance have stimulated international economic activity. Both international trade and foreign direct investment (FDI) have grown rapidly in recent years, often outpacing the growth of GDP.[135] The expanding role of developing-country producers in world markets, especially in manufacturing, has stimulated discussion as to whether intensified international competition has undermined the high-wage, high-employment role of manufacturing industries in the developed economies.

174. Numerous empirical studies have been conducted, but have not achieved a consensus.[136] One problem with the globalization argument is that trade remains small relative to GDP in most developed economies. Indeed, the fastest growing activities in developed countries are services, many of which are largely non-tradeable. Moreover, the bulk of trade and FDI flows occur between developed economies. The restructuring of the automobile industries in North America and Western Europe largely stems from intensified competition through trade and FDI with Japanese firms, not competition from low-wage, developing-country producers. Nonetheless, a number of developing-country producers have made inroads in developed-country markets, while at the same time, transnational corporations from developed economies appear to be making greater efforts to integrate and rationalize their operations on a regional or global scale.[137]

175. Trade and FDI are activities for which benefits flow in both directions. FDI, for example, often stimulates trade, in that the establishment of production facilities in host countries can lead to an increase in exports to that country, as well as an increase in imports resulting directly from the offshore production. There is no necessary reason why the jobs lost because of rising imports should be greater than the jobs gained from rising exports. The problem is that job gains and losses will not be matched; they are likely to occur in different firms, perhaps in different industries, sectors and regions, and possibly among different occupational groups. Thus globalization, as with all types of economic change, may generate significant disruptions, even if the aggregate effects are small.

176. Increased trade, FDI and financial flows have made it more difficult for Governments to achieve their policy objectives, and globalization may have contributed to higher unemployment to the extent that this objective has suffered relative to others. In addition, labour migration has grown in some countries because of globalization. Indeed, immigration has been cited as a source of higher unemployment; available research, however, has not affirmed a

significant role for immigrant labour in high unemployment or low-wage outcomes. Overall, labour remains far less mobile than goods, services and real and financial capital.

177. A second explanation for the weakened performance of developed-country labour markets focuses on technology - particularly that recent technological innovations have placed a premium on skills and shifted demand away from less-skilled labour. The skill bias of technical change has created a mismatch between the labour attributes required on the demand side of the market and those available on the supply side. Empirical research has not been conclusive regarding the importance of technology in determining recent labour market outcomes. Wage differentials between skilled and unskilled workers have risen in the United Kingdom and the United States, and there is evidence that computerization has been associated with higher wages and skill requirements.[138] It has been difficult, however, to obtain measures of new technology that can be linked with observed outcomes. In the United States higher unemployment, stagnant real wages and skill premiums in the wage structure began to appear in the 1970s, yet the spread of computers and computer-related technologies in offices and factories dates from the 1980s. Moreover, studies of firms and industries have unearthed evidence linking the greater use of new technologies, particularly information technologies, to labour-saving and skill-enhancing work requirements. Yet evidence has indicated little or no changes in labour requirements associated with new technologies.[139] As with globalization, technology may be labour-displacing in some instances; however, technological innovation also tends to reduce costs and stimulate demand, leading to expanded output and employment.[140]

178. Perhaps even more important, globalization and technical change are interdependent. Indeed, trade and FDI are major conduits for the spread of technology, while intensified competition provides a powerful incentive for firms to deploy new technologies. In addition, some firm-level changes (such as those described above as components of lean production) are primarily organizational innovations rather than technological ones. Such interrelationships heighten the difficulty of isolating cause and effect linkages.

179. Changes in international economic relations and in the technology and organization of production may be labour-displacing in the short term but labour-enhancing over time, as economies adjust to new conditions (see box 7.5). Indeed, technical progress has occurred over several centuries without a corresponding secular rise in unemployment, while growth in international trade and FDI have been associated with economic growth in the past. The challenge is to devise responses to the disruptive aspects of change that also permit the growth-enhancing and labour-utilizing aspects to take effect.

Box 7.5

Technical change and labour in the United States

Technical change, particularly rapid technical change, has frequently created substantial displacement in labour markets. Current technical change is knowledge-intensive and appears to be linked to a widening of the wage distribution and an increase in unemployment among less-skilled workers in a number of developed economies.

Similar labour market disruptions have occurred in the past. From the last half of the nineteenth century until well into the twentieth century, technical change in the United States tended to favour physical capital, natural resources and unskilled labour at the expense of skilled labour. These changes were embodied in the mass production system, which replaced craft-based production and which drew its labour force from large-scale immigration and the decline in demand from agriculture.

By the first two decades of the twentieth century, changes in manufacturing were beginning to raise skill requirements. For example, manufacturing industries required machine-building and maintenance skills, while management skills were increasingly needed as firms grew. Expanded electrification and developments in chemicals and petroleum demanded new equipment and gave rise to new industries, such as household appliances. Wage differentials appeared, and it then became possible to identify the growth of skill premiums in the wage structure. One response was the spread of mass education and the updating of curricula; over time, the supply of skills caught up with demand, and gaps in the wage structure were kept under control.[a] It is in this period that a complementarity between capital investment and worker skills appeared, replacing the earlier complementarity between capital and unskilled labour.[b]

The present emphasis on knowledge-intensive skills dates from the period after the Second World War.[c] The war effort unleashed a period of science-based technical change, epitomized by the computer and jet aircraft, both products of wartime research and development. As in earlier periods, new industries developed, and some older ones expanded, often in the context of favourable government policies. For more than two decades aggregate economic conditions fostered relatively non-inflationary demand growth with few serious labour market disruptions. In addition, while computerized technology was prominent after the war, it did not spread widely through factories and offices until the 1970s and 1980s. Rising unemployment levels and deterioration of the wage distribution was first seen in the early 1970s, prior to the spread of the computer.

Thus, while wage premiums favouring skilled workers have clearly risen and unemployment and income erosion among the less-skilled has become a more serious problem in the United States, how much is associated with technical change per se, and how much is linked to a weaker macroeconomic environment, the loss of key worker protection and the growth of international trade, remains a debated issue.

Government policies have been only modestly effective in reducing unemployment among less-skilled workers, and income gaps remain wide. Recent evidence that the wage premium for skills is no longer rising suggests that higher college enrolments are increasing the supply of skilled workers, a process similar to that prior to the Second World War.[d] Such adjustments take considerable time, and are not accessible to all.

The existence of technologically dynamic industries, and the injection of new technologies and organizational methods into older industries, can generate significant opportunities for employment, the application of skills and income gains. But those whose employment conditions improve are often different, and from a new generation, than those whose employment conditions suffer as job requirements change and firms and industries are restructured.

Perhaps one way to look at the issue is to realize that technological change does cause significant dislocations in labour markets, and can be a source of unemployment and inequality, but that these problems can be made less onerous to the extent that high-demand growth can foster employment opportunities, if workers can be provided with some protection without restricting mobility and if domestic industries can compete effectively in international markets.

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[a] Claudia Golden and Lawrence Katz, "Technology, skill and the wage structure: insights from the past", American Economic Review, vol. 86. No. 2 (May 1996), pp. 252-257.

[b] Gavin Wright, "The origins of American industrial success, 1879-1940", American Economic Review, vol. 80, No. 4 (September 1990), p. 651-668.

[c] David C. Mowery and Nathan Rosenberg, Technology and the Pursuit of Economic Growth, (Cambridge, U.K., Cambridge University Press, 1989).

[d] Michael M. Phillips, "Wage gap based on education levels off", Wall Street Journal, (22 July 1996).

180. A further difficulty in applying the globalization and technical change explanations is that labour market outcomes have differed substantially among the developed economies. There are major differences in the relative success countries have had in combating unemployment. Similarly, while a number of economies have exhibited growing inequality, some countries have seen their wage gaps widen to a greater extent than have others. While there have been differences in the reliance on international linkages and in the pace at which new technologies have been introduced across economies, these differences are not large enough to explain the cross-national differences in labour market outcomes. Therefore, the observed differences across countries have been pinned to differences in labour market institutions.[141]

181. One common argument is that greater inequality is the mirror image of lower unemployment: countries that allow freer markets generate more low-paying jobs, while countries that have high social safety net protections generate higher incomes at the bottom of the distribution, but fewer jobs. Countries that have moved towards more open labour markets with less comprehensive social safety nets have been more successful in lowering unemployment but less successful in maintaining wage and salary growth, and have experienced a greater deterioration in their wage distributions. In contrast, countries with more comprehensive safety nets and less flexible labour markets have higher unemployment rates and less inequality.[142]

182. These differences in outcomes and market structures have stimulated a substantial discussion in recent years, both at the national and intergovernmental levels, as to the role labour market structure plays in determining employment, unemployment and wages.[143] The main comparisons were made between the United States and Western Europe.

183. The United States has increased the flexibility of its labour and product markets through government actions aimed at deregulating industries and limiting the scope of its social safety net - which was already low compared with other developed economies. The portion of the workforce protected by unions has declined, because of both government actions and changes in economic activity. The United States has achieved relatively low unemployment in the 1990s. Low-wage employment has also grown rapidly. But the United States has a deteriorating wage distribution.

184. In contrast, a number of European countries have extensive labour and product market regulations, strong unions, and high and comprehensive social safety nets, with high unemployment and a more stable wage distribution. France and Germany are examples of countries that are seeking to make their labour markets more flexible as a means of combating chronically high rates of involuntary unemployment.

185. But government actions to remove structural impediments in labour markets may not be able to fully resolve the labour market outcomes that have been most troubling. Some impediments, such as minimum wage laws, may have smaller effects than had previously been thought.[144] Some structural issues, such as informational asymmetries, may necessitate that Governments become more involved in the workings of markets. Moreover, the recent experience of the developed economies suggests a more complicated picture than that given by focusing on

differences in labour market structure. The United Kingdom, for example, has moved towards flexible labour markets and lower safety nets, yet has both high unemployment and a widening income distribution.[145]

186. The relation between structural impediments and macroeconomic conditions remains an open issue. The inflationary conditions and high budget deficits of the 1970s and 1980s led developed-country Governments to become more cautious in applying monetary and fiscal stimuli. Yet it is precisely those periods of aggregate expansion, such as the mid-to-late 1980s in Europe and North America and the early-to-mid 1990s in the United States, that have seen the largest gains in the fight against unemployment. As will be discussed in the next section, the appropriate mix of macroeconomic policies and microeconomic policies affecting labour market structure is an issue worthy of substantial attention.

5. Policy issues

187. Many policy initiatives have been undertaken in the developed market economies, and even more been seriously scrutinized, as problems of involuntary unemployment have persisted. Policies can be discussed under three headings: those aimed primarily at stimulating the demand side of the labour market, those concerned largely with the supply side and those intended to improve how labour markets function.

188. Demand-side policy includes both highly aggregative policies aimed at stimulating demand in the economy as a whole, and actions on the part of Governments to increase the employment of labour for specific purposes or in specific sectors. Policies have also aimed at stimulating demand in regions within countries.

189. Prior to the 1970s the stimulation of aggregate demand was a centrepiece of labour market policies in many developed economies. Since then, the role of aggregate policies has changed. High budget deficits, dating from the 1970s and 1980s, led many countries to reduce the degree of fiscal stimulation. This has been the case in Japan and the United States, among the largest economies, while a number of Western European economies have instituted greater fiscal restraint, in part as a response to the budget targets articulated in the Maastricht agreement. Similarly, inflationary pressures led to greater monetary restraint in many countries. Finally, international linkages, involving trade, financial and FDI flows, have constrained the ability of countries to adopt more expansionary policies in some instances. In Western Europe the central role played by the deutsche mark in foreign exchange markets has pushed countries towards greater restraint in order to protect their currencies.

190. The fight against inflation directly involves employment. Unemployment is thought necessary to prevent the acceleration of inflation; policy debates have focused on what unemployment rate is needed. The existence of a fairly high rate of unemployment (by historical standards) consistent with stable inflation, the non-accelerating inflation rate of unemployment (NAIRU), is widely accepted, with some arguing that the inflation rate should be driven down, perhaps to zero, not just maintained.

191. Recently, the high level of the NAIRU has been called into question (see box 7.6). Inflation rates in the United States are below 3 per cent per year - the lowest in three decades. In Japan there is greater concern regarding the possible spread of deflationary pressures, rather then accelerating inflation. In Western Europe, however, the high NAIRU in many countries is a cause for concern; the level of unemployment consistent with stable inflation implies a high cost born by the workforce.

Box 7.6

Unemployment and inflation: the NAIRU

The existence of a trade-off between unemployment and inflation is a central component of macroeconomic policy formulation in the developed economies. An empirical trade-off between unemployment and nominal wage changes was formulated by A. W. Phillips in 1958, studying data from the United Kingdom, and was quickly labelled the "Phillips curve".[a] In the 1950s and 1960s, it was widely believed that aggregate unemployment rates as low as 3 or 4 per cent (by United States definitions; even lower in some countries) could be achieved without inflation. If inflationary pressures emerged, a higher rate of unemployment would restore price stability, in effect moving an economy along its Phillips curve. In the late 1960s, as inflationary pressures became visible in a number of economies, Milton Friedman and Edmund Phelps reformulated the trade-off analysis.[b] They argued that once inflation began, expectations of future inflation would take hold in and people's market behaviour would alter the "stable" inflation point. The expectations-augmented Phillips curve was thought to be unstable in the short-run and, therefore, a poor guide for policy, leading to accelerating inflation if policy was formulated to achieve too low an unemployment rate. From this theory came the notion that at any given time in an economy, there will exist a rate of unemployment consistent with a stable rate of inflation, that is, a non-accelerating inflation. This was labelled the non-accelerating-inflation rate of unemployment (NAIRU).[c]

The NAIRU cannot be directly observed, and substantial attention has been devoted to estimating where it is likely to be, based on past unemployment and inflation data. An economy's NAIRU can change over time, not just because expectations shift but because the composition of the labour force changes, the demand for different labour skills moves at different rates, and discouraged workers enter and leave the labour force. In the United States the NAIRU was placed at about 6 per cent in 1993 and 1994. One estimate placed the NAIRU at 6.25 per cent in mid-1993, and warned that inflationary pressures would be observed as the actual unemployment rate approached that level.[d]

Recent research and experience has cast some doubt on the importance attached to the NAIRU. For example, the United States unemployment rate fell below 6 per cent - reaching 5.1 per cent in the summer of 1996 - without an acceleration of inflation. With the rate of inflation low and stable, were inflationary expectations largely removed? Indeed, relatively little is known about the formation or stability of inflationary expectations. In the absence of inflationary expectations, an expectations-augmented Phillips curve can be reduced to the simple Phillips curve, and policy makers may be able to target an even lower unemployment rate. Researchers Douglas Staiger, James Stock and Mark Watson found that estimates of the NAIRU for the United States have a wide confidence interval, meaning that a single point estimate should not be relied on.[e] For 1990 NAIRU estimates at a 95 per cent confidence interval ranged from 5.1 to 7.7 per cent. More recently, Robert Gordon has argued that the NAIRU varies within a narrower range.[f] Robert Eisner analysed United States inflation and unemployment data from 1960 and found the relation to be asymmetrical: unemployment rates below what was thought to be the NAIRU were not associated with accelerating inflation while unemployment rates above the NAIRU were associated with falling inflation.[g] In a cross-country study of developed economies Laurence Ball found that increases in a country's NAIRU were linked to its degree of monetary tightness and the size and length of disinflationary periods.[h] This result implies that the NAIRU may be a result of policy changes, and not only a cause.

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[a] A. W. H. Phillips, "The relationship between unemployment and the rate of change of money wage rates in the United Kingdom, 1861-1957", Economica, vol. 25 (1958), pp. 283-99.

[b] Milton Friedman, "The role of monetary policy", American Economic Review, vol. 58, No. 2 (May 1968), pp. 1-17; Edmund Phelps, "Phillips curves, expectations of inflation, and optimal unemployment over time", Economica, vol. 34 (August 1967), pp. 254-281.

[c] World Economic and Social Survey 1994 (United Nations publication, Sales No. E.94.II.C.1), pp. 160-161.

[d] Stuart Weiner, "New estimates of the natural rate of unemployment", Federal Reserve Bank of Kansas City, Economic Review, vol. 78, No. 4 (1993), pp. 53-69.

[e] Douglas Staiger, James Stock and Mark Watson, "How Precise are Estimates of the Natural Rate of Unemployment?" National Bureau of Economic Research (NBER) Working Paper No. 5477 (Cambridge, Mass., March 1996).

[f] Robert J. Gordon, "The time-varying Nairu and its implications for economic policy" NBER Working Paper No. 5735 (Cambridge, Mass., August 1996).

[g] Robert Eisner, "A New View of the NAIRU", manuscript, Department of Economics, Northwestern University, (July 1996).

[h] Laurence Ball, "Disinflation and the NAIRU", NBER Working Paper No. 5520 (Cambridge, Mass., March 1996).

192. Pressures to limit the expansion of government budgets have affected programmes that generate jobs in specific sectors or regions. Direct job stimulation has been inhibited also because of widespread privatization and deregulation. Privatized enterprises and those no longer under regulatory protection tend to reduce their labour requirements. But again, deregulated and privatized enterprises may become more technologically advanced and internationally competitive, leading to expansion in output and employment over time. Also, cost reductions and technological improvements in deregulated industries, such as telecommunications, can stimulate expansion in other sectors. Even with the advantages of privatization and deregulation, a number of government activities can possibly be expanded having significant potential benefits, as well as positive employment impacts. Investment in physical infrastructure is one; investment in human capital through education and health care is another.

193. Some demand-side policies use the price system to stimulate hiring. Some countries with minimum wage laws also permit sub-minimum wages to be paid in certain instances, such as to young people. Moreover, in a number of countries the real value of minimum wages has declined over time and relative to the wage structure, because of inflation. Inaction on the part of Governments regarding the protection of minimum wages from such erosion can be interpreted as a policy response. The widespread perception that minimum wages contribute to unemployment, however, has not been borne out. Recent research on the United States and Western Europe suggests that changes in minimum wages have a very small impact on employment and unemployment.[146] Indeed, the problems discussed above regarding youth unemployment imply that changes in minimum wage policies have had little or no success in stimulating employment among this group.

194. Supply-side policies are those that seek to improve the skills of a nation's labour force and those that affect people's incentives to work. All developed countries have extensive public education systems, frequently including subsidies that can be used in private systems. Coverage, access and the balance between general and vocational education differ - and there are cross-country differences in educational attainment. Many of the policy debates in recent years have focused on how education and training can bridge the growing problem of skill mismatch.

195. One issue is the balance between private and public sector efforts. In Japan, firms have extensive in-house training programmes, partly because of the lifetime employment system and the prevalence of fairly stable inter-firm alliances that serve to internalize movements of labour. Thus firms, or their allies, are more likely to retain benefits of in-house training, compared with economies that have greater inter-firm mobility of labour.[147] In economies with high labour mobility there are significant external benefits from training programmes. There would thus appear to be a substantial role for public programmes in such cases.

196. Recent research indicates that firm-based training systems do yield substantial returns, both to the individuals receiving training and the firms giving it, even if the firms are unable to capture all of the potential returns. Studies of employer-provided workplace training programmes in Australia, the Netherlands, the United Kingdom and the United States indicate firm-level productivity increases of 11 to 20 per cent and individual wage increases of 3 to 16 per cent.[148] In one study of the United States training received from prior employers increased worker productivity by almost 10 per cent and reduced the amount of training required in the new firm, giving evidence of external benefits.[149] Such results suggest that public support of firm-level training would generate substantial benefits. It is thought by some that firm-level training may be effective to the extent firms have the flexibility to adjust training to meet rapidly changing skill requirements.

197. Another group of supply-side policies are those that seek to remove or reduce disincentives to work: chiefly high and extensive social safety nets. A number of countries, most prominently the United Kingdom and the United States, have instituted policy changes to either reduce benefits and/or narrow access to safety net programmes. In late 1996, for example, the United States Government altered its decades-old welfare programme, funded centrally but administered decentrally, in an attempt to reduce welfare rolls and induce more welfare recipients into the job market.

198. Such changes are part of broader attempts to remove or reduce both public and private worker protection programmes. Some of these changes have been controversial - proposed changes in France in 1995 were met by intensified labour unrest. More important, it is not clear whether removing or reducing safety net-related disincentives substantially affects labour supply - available research is inconclusive.[150] At the aggregate level, some of the countries that have chosen to reform safety nets still have high unemployment rates, such as the United Kingdom, or a wide wage distribution, such as the United States. The challenge is to formulate socially effective safety nets that minimize interference in labour supply behaviour.

199. One of the rationales for reducing safety net protection is that it impedes the functioning of markets, and thereby explains the structural nature of unemployment. Other policies are also aimed at improving how labour markets work. Many Governments provide job-matching services to improve the flow of information. Subsidies to aid in geographical mobility and retraining programmes to improve occupational and industrial mobility have been tried, but have, in many countries, such as Sweden, been cut back because of restrictions on government outlays. Not all impediments to hiring can be traced to policy weaknesses. In some instances, firms may fail to respond to market-determined wage differentials, preferring to retain more highly paid "insiders" to expanding the employment of lower wage "outsiders". Such firms not only value the firm-specific skills of insiders, but also value continuity and trust within the organization. Such behaviour, while rational for the firm, creates discontinuities in labour markets that are difficult to overcome.

200. It is certainly possible to conceive of the various policy instruments in terms of their compatibility. Macroeconomic stimulation and microeconomic policies designed to remove structural barriers in labour and product markets

can be jointly effective in stimulating employment. The issue in both cases is the trade-offs. In addition to stimulating demand and employment, macroeconomic policies must also be concerned with inflation, a country's external balance, and savings and investment. Microeconomic policies must deal with human capital and job creation, on the one hand, and poverty and inequality on the other. Each country must establish its own priorities in balancing these objectives.

Notes

[1] It should be recalled that the 2010 labour force has already been born. The Chinese total fertility rate (per woman) was estimated at 5.94 during the 1965-1970 period and 1.95 during the 1990-1995 period. See World Population Prospects. The 1994 Revision (United Nations publication, Sales No. E.95.XIII.16).

[2] See International Labour Office, Bulletin of Labour Statistics, Nos. 1995-1, 1995-2 and 1995-3 (Geneva, International Labour Office, 1995).

[3] See World Economic and Social Survey, 1995 (United Nations publication, Sales No. E.95.II.C.1), pp. 263-282.

[4] The high share in Latin America reflects the relative ease of commuting. See D. Turnham, Employment and Development. A New Review of the Evidence (Paris, OECD, 1993).

[5] There is evidence, however, that geographical mobility of labour may be constrained in traditional agriculture, particularly in Asia, where the strength of community relations plays an important role in the recruitment of hired labour. S. Hirashima and M. Muqtada, eds. Hired Labour and Rural Labour Markets in Asia (Geneva, International Labour Office, 1986).

[6] A. Saith, "Reflections on South Asian Prospects in East Asian Perspective", Issues in Development, Discussion Paper No. 7 (Geneva, International Labour Office, 1995).

[7] M. R. Rosenwzeig, "Labour markets in low income countries", in Handbook of Development Economics, vol. I, H. Chenery and T. N. Srinivasan, eds. (Amsterdam, Elsevier Science Publishers, Amsterdam, 1988), pp. 714-762.

[8] The wage rate of permanent labourers is usually lower than that of casual labourers. Hirashima and Muqtada, op. cit.

[9] A. de Janvry et al., "Rural labour in Latin America", International Labour Review, vol. 128, No. 6 (1989), pp. 701-730.

[10] On recent economic trends in developing countries see World Economic and Social Survey 1996 (United Nations publications, Sales No. E.96.II.C.1), pp. 34-54.

[11] See M. Muqtada and P. Basu, "Macroeconomic policies, growth and employment expansion: the experience of South Asia", (Paper prepared under the

ILO/UNDP project "Economic policy and employment", Paper No. 8, July 1994; A. Singh, "Labour markets and structural adjustments: a global view" in Towards social adjustment: Labour market issues in structural adjustment, G. Standing and V. Tokman (eds.), (Geneva, International Labour Office, 1991).

[12] That analysis covered the period 1975-1994; it however did not include comparisons with previous periods and did not examine the possibility of changes in job elasticity within the periods analyzed. (International Labour Office, "Employment policies in a global context", International Labour Conference, 83rd Session (Geneva, International Labour Office, 1996)).

[13] World Population Monitoring 1993 (United Nations publication, Sales No.E.95.XIII.8); Pang Eng Fong, Regionalism and Labour Flows in Pacific Asia (Paris, OECD, 1993); and World Investment Report 1994 (United Nations publication, Sales No.E.94.II.A.14).

[14] World Bank, "India country economic memorandum. Recent economic developments: achievements and challenges", (World Bank report No. 14402-IN, Washington, D.C., World Bank, May 1995).

[15] Even countries with diversified productive structures have been affected by oil because of their reliance on official development assistance (ODA) from the oil-exporting countries.

[16] Economic and Social Commission for Western Asia, Survey of economic and social developments in ESCWA region, 1995. Summary (E/ESCWA/ED/1996/Rev.1, 27 March 1996). R. A. Shaban et al., "The challenge of unemployment in the Arab region", International Labour Review, vol. 134, No. 1 (1995), pp. 65-81.

[17] World Bank, "Will Arab workers prosper or be left out in the twenty-first century?" Regional perspectives on the World Development Report 1995 (Washington, D.C., World Bank, 1995).

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[129] Lonnie Golden, "The expansion of temporary help employment in the United States, 1982-1992", Applied Economics, vol. 8, No. 9 (September 1996), pp. 1127-1142; Susan Houseman and Osawa Machiko, op. cit.

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[131] Jennifer Hunt, "Has work-sharing worked in Germany?" NBER Working Paper No. 5724 (Cambridge, Mass., August 1996).

[132] World Economic and Social Survey, 1994 (United Nations publication, Sales No. E.94.II.C.1), p. 178.

[133] Bernard Wysocki, Jr., "About a million men have left the work force in the past year or so", The Wall Street Journal, 12 June 1996.

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[140] Chris Freeman, Luc Soete and Umit Efendioglu, "Diffusion and the employment effects of information and communication technology", International Labour Review, vol. 134, Nos. 4-5 (1995), pp. 587-603.

[141] World Economic and Social Survey, 1994, pp. 169-173; Richard B. Freeman, "How labor fares in advanced economies", in Richard B. Freeman, ed., op. cit., pp. 1-28.

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[143] See, for example, OECD The OECD Jobs Study: Facts, Analysis Strategies (Paris, OECD, 1994); OECD, The OECD Jobs Study: Implementing the Strategy (Paris, OECD, 1995); ILO, World Employment, 1995 (Geneva, ILO, 1995), pp. 137-158.

[144] ILO, op. cit., pp. 150-151.

[145] See, for example, Stephen Machin, op. cit.

[146] See, for example, David Card and Alan Krueger, "Minimum wages and employment", American Economic Review, vol. 84, No. 4 (September 1994), pp. 772-793; Alan Manning, "Pay impact exaggerated", Financial Times (14 October 1996); Juan Dolado, Francis Kramarz, Stephen Machin, Alan Manning, David Margolis and Coen Teulings, "The economic impact of minimum wages in Europe", Economic Policy, No. 23 (October 1996), pp. 317-372.

[147] Hiroshi Kawamura, op. cit. Japanese firms appear to have greater firm-specific skill requirements, which also reduce mobility.

[148] Lisa Lynch, "Payoffs to alternative strategies at work", in Richard Freeman, op. cit. pp. 63-95.

[149] Lisa Lynch, op. cit., p. 82.

[150] Rebecca Blank, "Does a larger social safety net mean less economic flexibility?" in Freeman, op. cit., pp. 157-187.

Chapter VIII

DISCRIMINATION

1. Although not all forms of social exclusion derive from discrimination, all forms of discrimination lead to exclusionary behaviour. Examination of social exclusion provides additional insights into the problems of poverty and unemployment. This approach has been defined as a "way of analyzing how and why individuals and groups fail to have access to a benefit from the possibilities offered by societies and economies".[1] It identifies excluded population groups needing assistance and allows for more targeted policies to ensure their participation and integration in the development process.

2. Viewing poverty through the prism of social exclusion highlights the essence of poverty and deprivation as well as the mechanisms that lead to them. Societal and economic forces create and intensify various forms of exclusion. In the extreme, individuals move from vulnerability to dependence to marginality. Patterns of development in which the benefits of economic growth are shared by only certain identifiable groups increase exclusion.

3. The issue of livelihood (or its absence) can also be viewed through the prism of exclusion. In this context, exclusion takes various forms, including exclusion from land, from other productive assets, from markets for goods and particularly in urban areas from the labour market. Some scholars have suggested that severe ethnic and racial antagonisms can often be traced to the point at which groups first find themselves competing in the labour market.[2] This theory argues that all discrimination by race or ethnic groups originates through this dynamic, in which groups mobilize political and economic resources to further their material interests. The goal of such actions is the exclusion of the competing group from the labour market or, failing this, the creation of a caste system that provides the dominant group with preferential treatment.

4. It is essential that policies for productive work and the reduction of poverty be accompanied by the application of the principles of rights, social equity and justice. The World Summit for Social Development devoted particular attention to this point, stressing that "policies to eradicate poverty, reduce disparities and combat social exclusion require the creation of employment opportunities, and would be incomplete and ineffective without measures to eliminate discrimination and promote participation and harmonious social relationships among groups and nations."[3] In enunciating the principle of social integration the Summit emphasized the unacceptability of discrimination and called for its elimination in all of its dimensions.

5. What is discrimination? Various United Nations human rights instruments define the meaning and content of the principles of discrimination and equality.[4] The United Nations Charter prohibits discrimination on the basis of race, sex, language or religion. The Universal Declaration of Human Rights, also adopted in 1948, enlarged the list to include colour, sex, political or other opinion, national or social origins and other status. Other major international anti-discrimination instruments are shown in table 8.1.

Table 8.1 Major international anti-discriminatory instruments

Declarations

U.N. Declaration on the Elimination of All Forms of Racial Discrimination (20 November 1963)

U.N. Declaration on the Elimination of Discrimination against Women (7 November 1967)

U.N. Declaration on the Rights of Mentally Retarded Persons (20 December 1971)

U.N. Declaration on the Rights of Disabled Persons (9 December 1973)

UNESCO Declaration on Race and Racial Prejudice (27 November 1978)

U.N. Declaration on the Elimination of All Forms of Intolerance and of Discrimination Based on Religion or Belief (25 November 1981)

U.N. Declaration on the Human Rights of Individuals Who Are not Nationals of the Country in Which They Live (13 December 1985)

U.N. Declaration on the Rights of Persons Belonging to National or Ethnic, Religious and Linguistic Minorities (18 December 1992)

Conventions

Convention relating to the Status of Refugees (14 December 1950)

ILO Equal Remuneration Convention (29 June 1951)

Convention on the Political Rights of Women (20 December 1952)

Convention Relating to the Status of Stateless Persons (26 April 1954)

ILO Convention Concerning the Protection and Integration of Indigenous and Other Tribal and Semi-Tribal Populations in Independent Countries (26 June 1957)

Convention on the Nationality of Married Women (29 January 1957)

UNESCO Convention against Discrimination in Education (14 December 1960)

ILO Discrimination (Employment and Occupation) Convention (15 June 1960)

Protocol Instituting a Conciliation and Good Offices Commission to be responsible for Seeking a Settlement of Any Dispute Which May Arise between States Parties to the Convention against Discrimination in Education (10 December 1962)

Convention on Consent to Marriage, Minimum Age for Marriage and Registration of Marriages (7 November 1962)

U.N. International Convention on the Elimination of All Forms of Racial Discrimination (21 December 1963)

International Convention on the Suppression and Punishment of the Crime of Apartheid (30 November 1973)

U.N. Convention on the Elimination of All Forms of Discrimination against Women (18 December 1979)

International Convention against Apartheid in Sports (10 December 1985)

Convention Concerning Indigenous and Tribal Peoples in Independent Countries (27 June 1989)

International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families (18 December 1990)

6. Non-discrimination is also established in regional human rights instruments, including the European Convention, the European Social Charter and the Declaration Regarding Intolerance - A Threat to Democracy, all adopted by the Council of Europe; the African Charter on Human and Peoples' Rights, adopted by the Organization of African Unity; and the American Convention of Human Rights, adopted by the Organization of American States.

7. Some United Nations conventions define discrimination. Article 1, paragraph 1, of the International Convention on the Elimination of All Forms of Racial Discrimination (General Assembly resolution 2106 A (XX), annex) defines the term "discrimination" as "any distinction, exclusion, restriction or preference based on race, colour, descent, or national or ethnic origin which has the purpose or effect of nullifying or impairing the recognition, enjoyment or exercise, on equal footing, of human rights and fundamental freedoms in the political, economic, social, cultural or any other field of public life". Article 1 of the Convention on the Elimination of All Forms of Discrimination Against Women (Assembly resolution 34/180, annex) defines "discrimination against women" as "any distinction, exclusion or restriction made on the basis of sex which has the effect or purpose of impairing or nullifying the recognition, enjoyment or exercise by women, irrespective of their marital status, on a basis of equality of men and women, of human rights and fundamental freedoms in the political, economic, social, cultural, civil or any other field".

8. The next section of this chapter describes how discrimination operates and identifies various discriminated against groups. The following section examines the salient gender discrimination issues, describes the problems faced by discriminated against social groups, including minorities, and reviews the major international instruments that deal with discrimination against minorities. The last section of the chapter reviews specific policy options for combating discrimination.

A. Anatomy and patterns of discrimination

1. Anatomy of discrimination

9. Discrimination reflects a complex set of attitudes towards individuals or social groups within a society. It is usually based on social, biological or cultural differences and can appear in different areas and be applied in different forms.

10. Three types of discrimination can be distinguished:

(a) Political discrimination, which includes denial of political rights, restriction of access to political decision-making, lack of adequate representation in legislative bodies and restrictions on freedom of expression, voting, free movement and place of residence;

(b) Socio-economic discrimination, which includes limited access to labour markets, resources and social services;

(c) Cultural discrimination, which includes restrictions on the use of language, the observation of cultural practices and religious traditions, and so forth.

11. Discrimination against social groups is often based on deeply embedded social mechanisms, and may take the forms of established social practices or explicit public policies. Social practices are often supplemented by public policies, which accounts for the persistent nature of discrimination. The effects of discrimination against social groups are reflected in phenomena such as unjustified inequalities and lack of empowerment and equal opportunities, which can in turn lead to social tensions and political instability.

12. Many theories have been offered to explain discrimination. Some scholars consider discrimination a psychological phenomenon, tied to personality types and group rivalry. Economic and social factors may also contribute to psychological explanation.

13. Other scholars stress factors such as organized social actions and certain principles of social organization. Social organization based on hierarchical structures assigns social roles on the basis of factors such as property, power and status, race, ethnicity or gender. Complex social structures often lead to specific forms of discrimination against social groups. Social practices and public policies must be modified to prevent inequalities, social exclusion or discrimination based on the characteristics of social groups.

14. Institutionalized forms of social discrimination against groups also exist. This form of discrimination is caused by political, economic and cultural factors. Institutional mechanisms and their underlying social norms must be adjusted to ensure that the rights of social groups are protected. Doing so requires establishing a balance between the rights of states and the rights of individuals and social groups. Legal norms established on the basis of prevailing values of dominant segments must be modified so that they do not restrict the rights of socially different groups.

15. Balance between the vested interests of dominant segments and those of specific social groups must be achieved. The granting of rights to discriminated against social groups may be seen as a threat to the legitimate rights of dominant social groups. Social integration requires recognition of the identity of minority social groups without forcing assimilation of such groups. Prevention of discrimination requires adequate political, legal and socio-economic regimes (rules and norms) in order to minimize the potential for conflict and destabilization.

2. Categorization of discriminated against groups and evaluation of patterns of discrimination

16. Multilateral legal instruments define different social groups which are subject to discrimination. A minority group is defined as a "group which is numerically inferior to the rest of the population of a State and in a non-dominant position. The members of minority groups possess ethnic, religious and cultural/linguistic characteristics which differ from those of the rest of

the population and who, if only implicitly, maintain a sense of solidarity, directed toward preserving their culture, traditions and language".[5]

17. Minority groups can be characterized by their absolute and relative size within the total population, their geographical concentration and dispersion, their citizenship, their social characteristics, their relationship to other sectors of the population and their legal position within the state. They can be identified by national, ethnic, religious, cultural or linguistic characteristics.

18. New trends in international law deal with the rights of social groups, although the nation State remains the primary beneficiary of international law, and commitment to the sovereignty and territorial integrity of nation states is one of the basic principles of the United Nations. International human rights instruments are related to the political, social and economic rights of individuals.

19. The identification of specific groups and the examination of potential and actual discrimination raise the issue of specific group rights in addition to individual rights. The basis for the emphasis on group rights is the fact that the individual-centred approach, even if combined with the non-discrimination rule, cannot ensure the rights of individuals as members of a group or the rights of the group itself. The approach of protecting the rights of specific groups is being incorporated in new human rights instruments in which the need to harmonize the rights of the state, the individual and the group is recognized.

20. The United Nations Charter makes no reference to the rights of specific groups. It reflects the view that in order to ensure a stable society individual human rights must be protected by the principles of equality and non-discrimination. The focus on minority or group rights was later supplemented by legal instruments such as the International Convention on the Elimination of all Forms of Racial Discrimination and the Declaration on the Rights of Peoples Belonging to National or Ethnic, Religious and Linguistic Minorities (Assembly resolution 47/135, annex), which deal with specific group rights.

21. The adoption of legal instruments defining group rights, the monitoring of discrimination against identified groups, and the formulation of international and national policies and strategies to reduce and eliminate group discrimination are indispensable. The basic objectives of such mechanisms should be:

(a) To guarantee the rights and preserve the identity of ethnic, religious and cultural/linguistic groups;

(b) To ensure equality for these groups and prohibit discrimination;

(c) To ensure the rights of individuals to identify with the group and to be different without being forced to assimilate;

(d) To equalize opportunities for discriminated groups by adopting special measures.

22. Non-dominant ethnic, religious and linguistic groups should be entitled to equality and permanency in societies that respect their identities. But enhancing group rights without threatening states' right to sovereignty and territorial integrity poses a challenge.

23. Patterns of discrimination against identified social groups can be identified:

(a) Identifying discriminated groups (by size and social characteristics, for example);

(b) Examining specific forms of political, socio-economic and cultural discrimination;

(c) Determining the negative effects of social discrimination for the identified groups.

24. Policies, institutional structures and legal and social norms that prevent or reduce discrimination against specific social groups must be adopted.

B. Gender discrimination

25. At the beginning of this century most societies viewed as natural a gender division of labour in which men and women were assigned specific functions, responsibilities and obligations. During the past four decades, however, the distinctions between female and male responsibilities have become increasingly blurred as women have entered areas of activities traditionally dominated by men. This change in the gender division of labour has generated an asymmetry between cultural perceptions of gender roles and contemporary reality.

26. In most regions of the world today women are represented in a wide range of professions and occupations, but they continue to be stereotyped as dependent upon a male breadwinner within a family unit, lacking commitment to their work and ready to leave the workforce or reduce their workday in order to be with their children. These stereotypes affect expectations about girls' education, female capabilities and ultimately the nature of the paid and unpaid work carried out by women in society. The mismatch between women's actual role and cultural perceptions about their role also delays adjustment by institutions and organizations to the new realities. The gender-biased environment within which women now operate induces discriminatory attitudes and practices that condition and restrict women's participation in socio-economic and political life. As the Fourth World Conference on Women noted "changes in women's roles have been greater and much more rapid than changes in men's roles. In many countries, the differences between women's and men's achievements and activities are still not recognized as the consequences of socially constructed gender roles rather than immutable biological differences" (A/CONF.177/20, chap. I, resolution 1, annex II, para. 27).

1. Changes in the gender division of labour

27. Under the traditional gender division of labour both urban and rural women were expected to maintain the household, care for children and old and sick members of the family, and participate in the economic activities of the household without remuneration. Men were expected to earn income and to protect the family from economic hardships and the violence of outsiders. The social space was separated into a male, or public, domain and a female, or private, domain, and gender relations were maintained by relations of power, subordination and dependency, or 'patriarchal' relations.

28. There has been a dramatic change in the gender division of labour, and patriarchy can be found in its purest form only in some developing countries. Women have shifted from the non-remunerated to remunerated work, and there has been a redistribution of activities between men and women within the household.

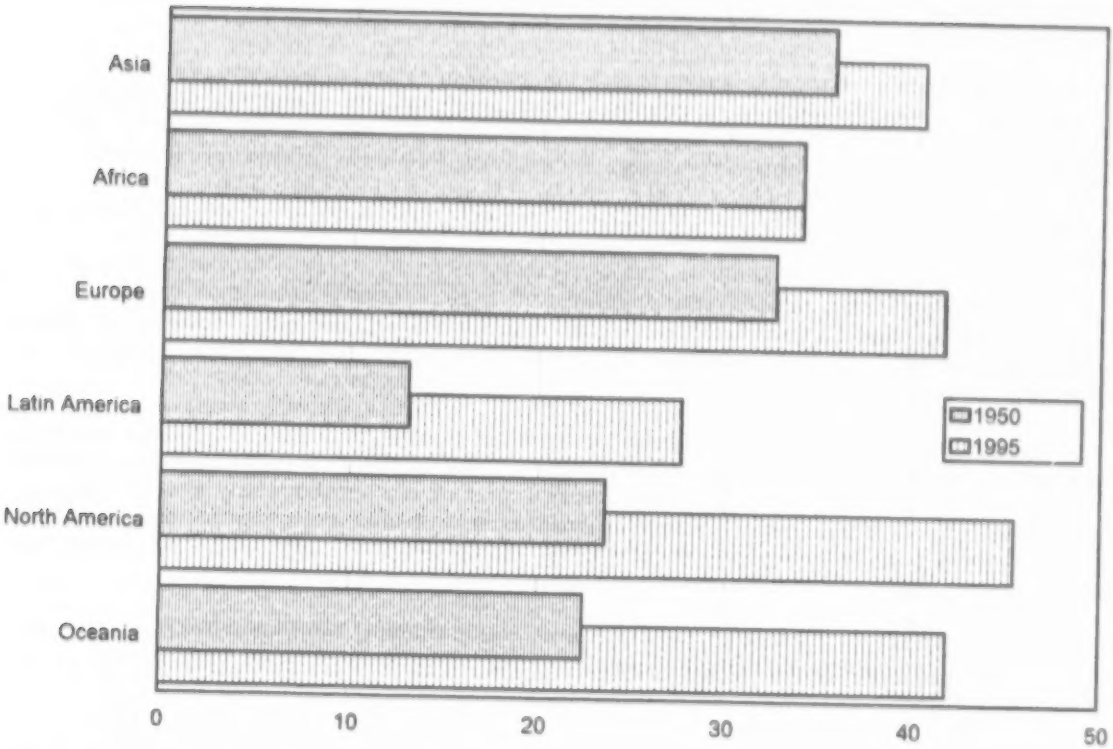
29. In the vast majority of countries women have entered the labour market on a massive scale. As figure 8.1 shows, between 1950 and 1995 participation by women in the labour force increased almost everywhere, with the most dramatic increases registered in North America (22 percentage points), Oceania (19 percentage points) and Latin America (15 percentage points). In contrast, female participation in Africa remained unchanged.

30. This increase in female participation in the labour force has consequences for the distribution of labour for household activities. In the United States, for example, the total number of hours spent by women in remunerated employment increased from 18.7 to 24.5 between 1965 and 1986, while the number of hours spent on household and family decreased from 37.8 to 31.9.[6] In Germany men's share of housework increased by 17 percentage points in meal preparation, 13 percentage points in childcare, and 14 percentage points in shopping between 1965 and 1992. Men increased their participation in childcare activities by 10 percentage points in the Republic of Korea between 1987 and 1990 and by 5 percentage points in Japan between 1986 and 1991.[6]

31. Although women now work more outside the home, in most countries they continue to perform their traditional domestic functions. As a result the overall workload - inside and outside the home - tends to be much heavier for women than for men. Polish women, for example, work 7.9 hours more per week on average than Polish men, while Japanese women work 3 hours more than Japanese men.[6]

32. The majority of economically active women in the world work in the informal sector, where working conditions are generally less secure than in the formal sector. Most informal enterprises operate outside the law and do not comply with prevailing labour legislation. Informal employers do not provide health insurance, non-wage benefits or annual leave and they do not make social security contributions. Working conditions are often difficult, and tools and technology employed are rudimentary. Nonetheless, according to some studies, informal economic activities by women have become an important, if not the most important source of family income in some developing countries. In the urban informal economic sector of many developing countries women are engaged

Figure 8.1 Female participation in the labour force by region, 1950 and 1995 (per cent)



Source: E. Denti and E. Ruhumuliza, "Evolution de la population active de 1950 a 1995", *Bulletin of Labour Statistics, 1996-1* (Geneva, ILO, 1996).

predominantly in the economic activities which are at the bottom of the urban labour market structure (itinerant trade, garbage picking, stallholding, and provision of personal and domestic services). In rural areas women now work in all capacities, including ploughing, cultivation, post-harvest operations, marketing, animal husbandry and related activities.[7]

33. In formal labour markets women tend to concentrate in activities traditionally viewed as female (nursing, food preparation, teaching, cleaning, and garment making) or in other low-technology industries. Women tend to be separated from men in the labour market structure both horizontally (across economic sectors and subsectors) and vertically (within occupational hierarchies). Figure 8.2 shows that in all countries sampled women continue to be underrepresented in economic activities traditionally regarded as male (construction, mining, transportation and production of gas, electricity and water); in manufacturing their representation more closely reflects their representation in the labour force. Within occupations, in most countries the majority of clerical and related workers, sales workers, service workers and professional, technical and related workers are women (table 8.2).

34. In developed countries temporary employment is on the rise. In Spain the incidence of temporary employment among women rose from 18.4 per cent in 1983 to 37.9 per cent in 1994. Over the same period temporary employment grew from 3.4 per cent to 12.4 per cent in France and from 9.3 per cent to 15 per cent in the Netherlands. In almost all of the OECD countries the incidence of temporary employment was higher among women than among men.[8]

35. Across countries, economic sectors and occupations, and educational groups women's wages are generally significantly lower than men's. In 1990 the male/female hourly wage ratio in manufacturing ranged from 41 per cent (in Japan) to 97 per cent (in Australia), with no country for which data were available achieving male/female wage parity.[9]

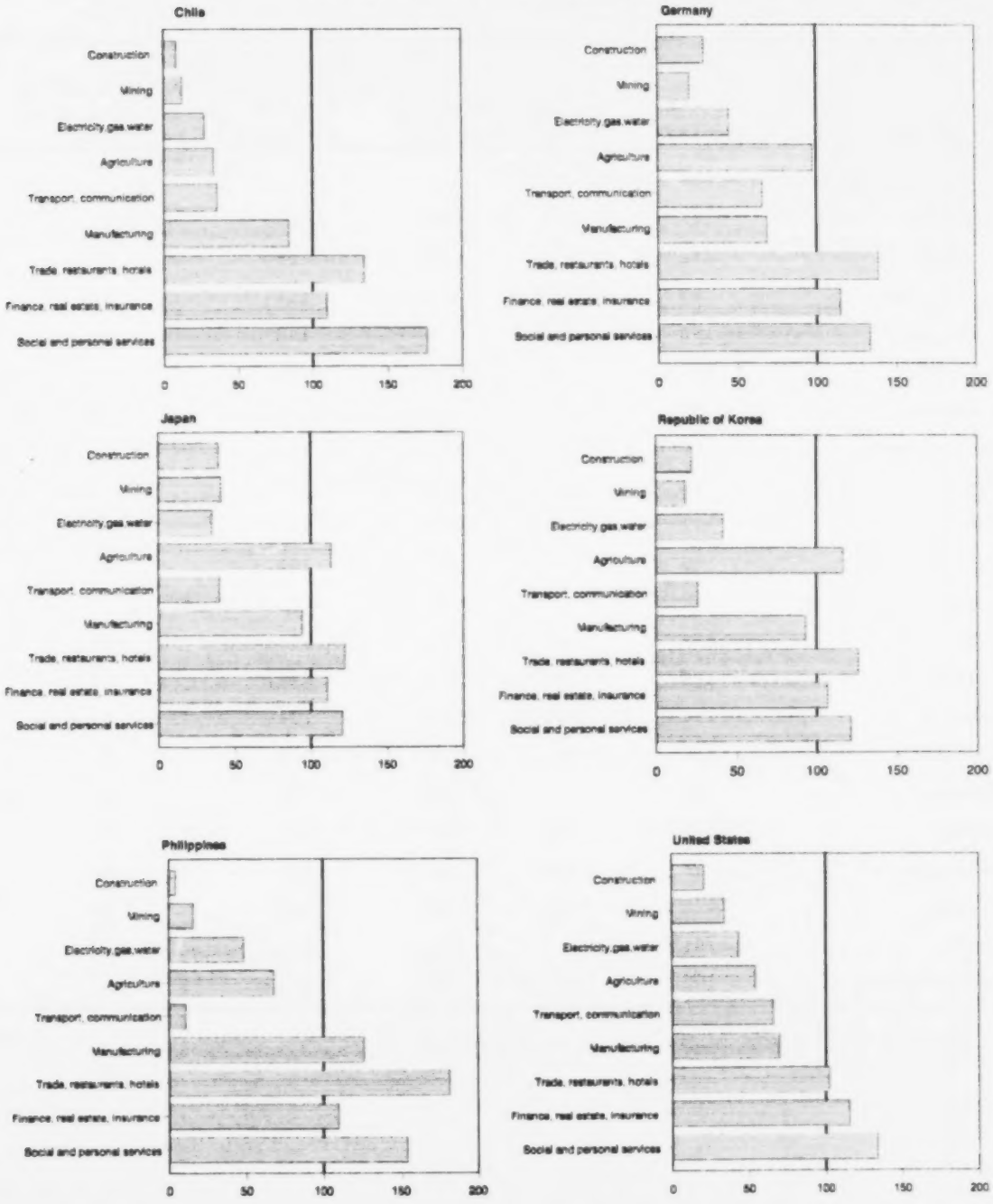
36. Within countries immense differences exist in the degree of female shortfall in wages across regions and ethnic groups and races. Within India, for example, the lowest female/male agricultural wage ratios were in the states of Punjab (0.06) and Haryana (0.10); the highest were in Madhya Pradesh (0.60).[10]

37. There is no question that an economic gap persists between men and women. But is this phenomenon a result of discrimination that forces women into certain activities, or is it a result of voluntary choice by women concerning education, careers and their use of time? To what extent do the male/female wage differentials reflect a market response to differences in free choices made by the two groups, and to what extent are they a product of discrimination against females?

Figure 8.2 Female dominance in sectors of economic activity in selected countries, early 1990s

(ratio of the female share in each economic sector to the female share in total labour force)

(Indices, female share in total labour force = 100)



Source: Yearbook of Labour Statistics, 1995 (Geneva, International Labour Office).

Table 8.2. Female dominance in selected occupations, early 1990s (ratio of the female share in each occupation to the female share in total labour force times 100)

Country	Clerical and related workers	Sales workers	Service workers	Professional, technical and related workers	Administrative and managerial workers
Developing countries					
Chile	145	146	216	159	65
Colombia	142	101	166	105	74
Costa Rica	168	126	201	153	82
Honduras	190	184	226	160	98
Malaysia	156	102	120	130	34
Pakistan	21	21	101	144	24
Philippines	151	189	157	179	84
Republic of Korea	102	117	152	112	10
Thailand	112	131	124	114	41
Uruguay	126	113	168	152	46
Developed countries					
Australia	112	25	184	59	101
Canada	176	99	125	123	93
Denmark	134	112	151	134	39
Finland	154	114	145	131	55
Germany	152	142	144	107	48
Japan	150	95	134	103	20
Netherlands	145	114	160	110	41
Norway	171	112	157	127	64
Spain	151	133	172	143	27
United States	172	107	130	114	91

Source: ILO, Yearbook of Labour Statistics, 1995.

2. Political discrimination

38. Although women have the right to vote and hold public office in most countries of the world today, they are grossly underrepresented in political institutions. In 1994 women held only 10 per cent of seats in parliamentary bodies (the figures were 12 per cent in industrial countries, 10 per cent in developing countries and 8 per cent in transition countries). As of July 1996 women served as Head of State of only 8 countries and as Head of Government of only 4 countries. Worldwide, women occupied only 5.6 per cent of ministerial posts. The gender distribution of ministerial posts also reflects stereotyping. In 1994 women held 3.1 per cent of ministerial posts in political affairs and 11.1 per cent of posts in social affairs.

39. At the beginning of this decade political representation by women within the former communist countries fell markedly. In the former Czechoslovakia, for instance, representation of women in the federal legislature dropped from 13-26 per cent to 10.7 per cent after the June 1990 election and to 8.7 per cent after the election in June 1992.[11] A similar trend was observed in Romania, where representation fell from about 33 per cent to 5 per cent, in Hungary, where representation fell from 21 per cent to about 8 per cent, and in Bulgaria, where representation fell from 21 per cent to about 9 per cent.[12]

40. In many countries major political parties treat women's issues as secondary. This lack of gender sensitivity undermines female interest in participating in formal politics. In some countries unstable political conditions and continuing military involvement in politics have encouraged women to withdraw from political life. In countries in which major political parties have opened their doors to women, women have failed to advance in the party hierarchy, with most women remaining rank-and-file party members.

3. Discrimination in education

41. Despite the introduction of compulsory primary education everywhere and a rapid extension of educational services to rural areas in developing regions, significant gender differentials in educational attainment and skills exist in many countries. In 1995 the female literacy rate in the developing world was 61.7 per cent, much lower than the 78.9 per cent rate among men (table 8.3). School enrolment rates of girls in many countries continue to be lower than those of boys, and some societies impose formal restrictions on acquisition of education by girls and women.[13] As a result, women often lack formal education, an important determinant of success in the labour market.

42. In principle, initial educational disparities could be ameliorated by on- or off-the-job-training. Some studies show, however, that women are often by-passed for such training.[14] A study on training among young Americans, for example, found that men were more likely than women to receive employer-provided training and to participate in apprenticeships.[15]

Table 8.3. Male and female literacy rates, by region, 1980, 1990 and 1995
(percentage)

Region	Male			Female			Total		
	1980	1990	1995	1980	1990	1995	1980	1990	1995
World	77.2	81.9	83.6	61.9	68.7	71.2	69.5	75.3	77.4
Developed countries	98.0	98.7	98.9	95.4	97.7	98.4	96.6	98.2	98.7
Developing countries	68.9	76.3	78.9	46.8	57.8	61.7	58.0	67.2	70.4
Sub-Saharn Africa	51.8	61.8	66.6	29.2	41.1	47.3	40.2	51.3	56.8
Arab States	55.0	64.5	68.4	26.2	38.1	44.2	40.8	51.7	56.6
Latin America and the Caribbean	82.1	86.4	87.7	77.5	83.5	85.5	79.7	84.9	86.6
Eastern Asia and Oceania	80.4	88.2	90.6	58.0	72.2	76.3	69.3	80.3	83.6
Southern Asia	52.8	59.8	62.9	24.5	32.6	36.6	39.1	46.6	50.2

Source: UNESCO, Statistical Yearbook 1995, table 2.2.

43. The role of the household and the family in the transmission of knowledge and skills to children remains very important. Child socialization within the rural patrilineal household of many developing countries continues to be governed by tradition. By customary law, for example, some field operations are assigned only to men, and access to machines and fertilizers is considered to be a male prerogative. Among many Hindu tribes ploughing is an exclusively male function, whereas sowing seeds is assigned to women. In many Arab countries the use of fertilizers is assigned exclusively to men, and boys are taught skills that are important for performing field work and machine operations; girls continue to be oriented towards the traditional roles of wife and mother. Such gendered-biased training in household activities shapes children's future choice of employment and, hence, their future earnings.

44. Persistent gender gaps in school enrolment also reflect the bias of patrilineal households against investment in the education of girls. Some rural societies attach a negative value to female education and thus discourage families from sending girls to school. In Niger, for example, a local honour code values marriage over education. When a daughter marries she becomes her family's permanent ambassador in her husband's family. Any misconduct by the bride reflects on her family, in particular her mother, who usually watches her daughters very closely. Schools are perceived as interfering with a mother's surveillance. Consequently, families develop all sorts of strategies to avoid school registration and often marry their daughters at a very early age, which automatically releases them from having an obligation to attend school.[16]

45. Urban households generally have a more positive view of female education. Even in countries with a wide range of employment opportunities available to women, however, families continue to restrict their daughters' choice of education and future career. A recent study revealed that choice of education for Korean and Japanese girls is heavily influenced by their families, who continue to value the Confucian image of women and see female education

primarily as a means of achieving an advantageous marriage and only secondarily as training for a career.[17]

4. Discrimination in entitlements within the household

46. Gender differences in entitlements persist in many patrilineal societies and bear much responsibility for intra-household welfare differentials and, hence, differences in opportunity sets. In contemporary societies the distribution of resources occurs through a complex system of claims, which are in turn embedded within social relations and practices that govern possession, distribution and use in those societies. The household represents a system within which individual claims to a social product are satisfied through endowments and exchange entitlements.[18]

47. In many societies, intra-household distributional processes are governed by informal rules and conventions that discriminate against women in family transfers and command over resources, including their own labour and income.[19] Customary law in some African countries and Hindu and Muslim Law in India, Bangladesh and some Arab and African countries governing family transfers (including land) restrict daughters' and widows' inheritance rights. In Tanzania, for instance, under local customary law the eldest son of a man's first marriage has the primary right to the family land.[20] Failure to give birth to a male child in the first marriage passes the right to sons in subsequent marriages. Neither a widow nor daughters have any proprietary rights.[21] Such discriminatory practices reduce women's capacity to generate income and reinforce their economic dependence on the family and their husbands. Women's lack of assets, particularly of land (women own only 1 per cent of land worldwide) reveals that unequal access to the basic means of production exists in many countries.[22]

48. Opportunities for women in some countries are further narrowed by discrimination in food allocation and access to health services. There is also scattered evidence that patrilineal societies which deprive girls of property inheritance also discriminate against them in distributing other entitlements.[23]

5. Discrimination against women in access to credit

49. In many countries women's economic dependence on families and men is reinforced by informal and formal constraints on their access to outside sources of finance, especially in the rural areas of developing countries. According to recent studies, women face a number of obstacles in obtaining formal credit, including (a) cultural constraints (a woman may need her husband's approval and signature in order to obtain a formal loan), (b) lack of collateral (banks in most developing countries accept only livestock or land title, requirements that exclude most women), (c) lack of information (women are often unaware of formal credit options and procedure requirements), (d) transactions costs (it is much more difficult for rural women to spare money and time for travelling to and from banks), and (e) repayment schedules (many studies have found that it is much easier for women to repay loans in frequent and small instalments than in the large, less-frequent payments typically demanded by banks).[24] As a result of

these constraints, female entrepreneurs and farmers have to rely on an informal credit network of relatives and friends or borrow from local moneylenders and pawnbrokers at exorbitant rates.

50. Innovative programmes are needed to improve women's access to finance. Intermediary programmes run by non-financial institutions and government agencies and parallel credit schemes have been able to reach even the poorest women. Non-financial institutions provide referrals, assist borrowers and guarantee loans, thereby reducing the costs of formal borrowing and the risk of lending to poor women. Under a parallel credit scheme an organization lends directly to the poor. Examples include revolving loan funds established under pilot or local income-generating or micro-entrepreneurship development projects and large-scale programmes, such as Production Credit for Rural Women in Nepal, the Working Women's Forum in India and the Small Business Scheme of the National Christian Council of Kenya in Kenya. Alternative banking institutions, such as the Grameen Bank in Bangladesh, the SEWA Bank in India and the Zimbabwean Savings Clubs, also lend to women.

6. Discrimination in the labour market

51. Many economists view gender earning differentials as a market response to differences in human capabilities, voluntary choices and skills accumulated through working experience and perceive the market as gender neutral. Review of the dynamics and structure of gender earnings in industrial countries supports this assumption only in part, however.

52. Gender earning differentials have declined over the past four decades, although the gender gap in wages has not been closed. To some extent the decline is the result of attempts to equalize opportunities through public education and political and legislative measures, but it also reflects changes in industrial and occupational composition and the decline in trade union coverage. Gender differences in pay for workers with the same measured background and experience persist, however, implying the existence of mechanisms that discriminate against women in the labour market.

53. Attempts to analyze the impact of economic discrimination on women's earnings have been only partly successful because of the absence of an effective measure of discrimination. The methodology and techniques used for this purpose (such as the decomposition of wages and earnings) leave much room for speculation on possible values (unknown or non-measurable) that can negatively affect female wages. Nonetheless, application of the decomposition method to wage differentials in different countries has resulted in some interesting findings. First, in all regions and countries studied 20 to 60 per cent of gender wage differential stemmed from male/female differences in human capital endowments. Second, the unexplained component of the sex wage differential was relatively large, ranging from 40 per cent in some developed countries to 80 per cent in some developing countries, even when female employment preferences were taken into consideration. Third, the component of the wage differential attributed to male/female differences in human capital endowments shows a tendency to decline with a rise in female educational level. Fourth, male/female wage differentials are usually smaller in the public sector than in

the private sector. Fifth, in multi-racial or multi-ethnic societies gender wage differentials may vary across ethnic groups and races. Sixth, schooling and hours of work are generally lower for women than for men, although this varies from country to country.[25]

54. Empirical studies reveal an inverse relationship between the "feminization" of employment and earnings of women, suggesting that women's earnings tend to be depressed by female overcrowding in a narrow range of jobs.[26] In Malaysia, for example, the average wage of a regular female worker in 1988 was inversely related to the female share in total employment. In industries with a female employment share of 75 per cent or more the mean wage was 35 percentage points lower than that in industries with a female share of 0.1 to 5 per cent.[27] In the Philippines in 1990 the average monthly wage of women in professional/technical occupations with a female employment share of 50 per cent or more was about 10 percentage points lower than the wage in occupations with a female employment share of 0.01 to 10 per cent.[28] This strong inverse relationship between feminization of employment and average female earnings holds for Malaysia and the Philippines even after controlling for other variables such as skill composition, industry, size of firm, ownership, extent of casual labour, past employment growth and unionization.[29]

55. Women's earnings are also affected by payment and promotion practices, which depend not only on labour productivity but also on the duration of employment and work tenure. These criteria evolved during a time when female employment was rare in many occupations, and interruption of work because of pregnancy, child-birth or care for sick family members was unacceptable. Women's mass entry into the labour market has modified these criteria only slightly. Labour codes now grant women the right to temporary leave for family reasons, but because women then lag behind men in employment duration and work tenure they suffer losses in wages and earnings. In a study of women's employment and pay in Latin America, the percentage of male pay advantage explained by differences in male/female potential experience is estimated to be 76 per cent on average, ranging from more than 400 per cent in Mexico to 19 per cent in Costa Rica.[30] A model of the promotion process for men and women in a large British financial company showed that raising women's work tenure to the level of men's would raise the female share in management grades by 17 per cent and reduce their share in clerical grades by 32 per cent. The study also indicated the presence of discrimination against women in all promotions above the bottom rungs of the job ladder, however.[31]

56. Discriminatory employment practices result in female underrepresentation in decision-making. Although they constitute approximately 40 per cent of the world's workforce, women hold less than 20 per cent of management and only 6 per cent of senior management positions.[32] The position of women is much weaker in the private sector than in public organizations. In the early 1990s, for example, only 1 per cent of all corporate chief executive officers in France and the United States of America were women.[33]

57. Women are compelled to make choices within an environment of inequality generated by systematic and all-embracing gender discrimination. Women and men enter into and participate in the labour market on an unequal basis because of pre-existing human capital differentials. The gender divide in the labour

market indicates that improvements for women in the workplace, although important, have had a limited effect in terms of eradicating gender discrimination.

C. Discrimination against minorities and other groups

58. Awareness of the problems encountered by minorities has grown in the 1990s and discrimination against minority groups has declined. In the transition economies the process of democratization has led to increased political and cultural rights for minorities. In Latin America, Asia and South Africa minority groups have benefited from and made use of political opportunities provided by the emergence of newly democratic regimes. Discrimination has also declined in Africa, the Middle East and Asia.

59. The overall picture remains complex and varied, however, and despite positive trends, serious problems remain. Extreme nationalistic movements in Europe advocate and foster political and economic discrimination and social exclusion. Intense inter-country conflicts arising out of ethnic and tribal rivalries in Africa have been particularly devastating for minorities. Anti-minority sentiment expressed in the public arena strains internal relations within nation states and threatens international peace and security.

60. Successful social integration of minorities requires an analysis of different types and forms of discrimination and their consequences as well as the elaboration of diverse strategies for political, legal, socio-economic and cultural integration. Successful integration of minorities in the societies in which they live will reduce the potential for minority alienation and grievances to foster destabilizing behaviour that may lead to large-scale conflicts.

1. Defining and identifying criteria for classifying minorities

61. The definition of minority groups is elusive and controversial. Relevant United Nations intergovernmental bodies have been unable to define a "minority" population group. The Working Group on Minorities of the Subcommission on Prevention of Discrimination and Protection of Minorities, established by the Commission on Human Rights, could not arrive at a universally acceptable working definition of a minority group which could be used comprehensively to address protection of vulnerable groups in given societies. The Working Group concluded that, since the term minorities could not be defined, any attempt to arrive at a definition would prove not only extremely time-consuming but also counter-productive for the advancement of its activities (see E/CN.4/Sub.2/1996/2).

62. A related problem is identifying acceptable criteria for classifying minority groups. The most obvious way of defining a minority is in terms of numbers.[34]

63. A minority could be defined as a numerically inferior group living within a larger population (and territorial state) which seeks to preserve the ethnic, linguistic, cultural (including religious) and, perhaps, political

characteristics that distinguish it from the larger population. Minority groups may, of course, possess radically different combinations of criteria. A minority group may be discriminated against on the basis of one characteristic, such as religion or language, or several characteristics (as in the case of indigenous peoples). Adding to the definitional dilemma is the notion that minorities include groups such as nomads and migrant workers. Some minorities seek political self-determination as a way of liberation from discrimination and oppression; others willingly or grudgingly accept a politically assimilated status within the territory or state controlled by an ethnically different majority.

64. The absence of basic rights for minorities may create social tensions and lead to political conflict. The first half of the 1990s has seen internecine wars break out over minority issues in the former Yugoslavia and in several African countries; the second half of the decade will no doubt witness conflict over the status, evolution and problems of minorities.

2. Discriminatory practices against minorities and other social groups

65. While recognizing the inherent difficulty of arriving at a universally agreed upon definition of minority status, it is nevertheless clear that numerous minorities suffer patterns of discrimination. Group discrimination may take the form of political, socio-economic or cultural restrictions which are invidiously imposed on members of ethnic, religious and linguistic minorities as a matter of public policy or social practice. Discrimination can also target other groups within a society, including women, older people, people with disabilities, certain categories of young people and immigrants. These groups may be discriminated against in terms of access to education, employment and social services. Attitudinal prejudices against certain groups may be manifested in either tacit or overt discriminatory behaviour. Each situation of actual or purported discriminatory practice requires an analysis of its context, degree of severity and effects, as well as proposal of countermeasures and remedies.

66. Discrimination against minorities comprises several dimensions and may be political, socio-economic or cultural. The following rights have been identified as essential to the protection of the existence of persons belonging to minorities (see A/49/415 and Add.1):

(a) The right to enjoy their own culture;

(b) The right to profess and practise their own religion;

(c) The right to use their own language;

(d) The right to participate effectively in cultural, religious, social, economic and public life;

(e) The right to participate effectively in decisions on the national level;

(f) The right to establish and maintain their own associations;

(g) The right to establish and maintain free and peaceful contacts with other members of their group, as well as contacts across frontiers;

(h) The right to equality before the law.

67. Subsequently, the right to equal access to land was included as a fundamental minority right. The International Labour Organization (ILO) issued Discrimination (Employment and Occupation) Convention (No. 111) in 1958, which 127 countries have ratified. The Convention seeks to eliminate discrimination in employment and occupations on the grounds of race, colour, sex, religion, political opinion, social origin or national extraction. Other prohibited grounds for discrimination cited by ILO are civil and marital status, disability, state of health, age and trade union membership.[35]

68. Discrimination against minorities and other social groups can be based on historical patterns (including the legacy of past neglect), specific economic and social practices, and/or explicit public policies fostering exclusion and restriction of certain rights enjoyed by the majority population. Some discriminatory practices may be seen as organized efforts of a dominant majority to preserve the inferior status of a minority or minorities. There may be historical roots and antecedents to this pattern, or it may emerge gradually or suddenly in the process of nation building. Recent events in Africa, Europe and the former Soviet Union are manifestations of the difficulties inherent in integrating different ethnic, racial and religious minorities into nation states. The survival of contemporary nation states requires a trade-off between interests and rights, establishment of new social contracts between majorities and minorities, and creation of flexible international mechanisms through which political bargaining and conflict resolution can be carried out. Aside from being an affront to human rights, violation of minority rights and discrimination against minorities fosters tensions and strains the stability of States.

69. Discrimination often reflects historically rooted conflicts and resulting inequalities. Discrimination affects both the attainment of the minority's collective goals and the well-being of individual members. Systematic discrimination against a minority leads to political, socio-economic and cultural inequalities and lack of social integration. Discrimination against ethnic, religious and linguistic minorities varies widely in type, severity and consequences. Efforts have been made to categorize minorities and codify the level, type and magnitude of discriminatory practice against them.[36]

3. International instruments addressing discrimination against minorities

70. Fundamental international legal instruments that define human rights, such as the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights, provide a sound basis for contravening discrimination against political, ethnic, religious and linguistic minorities. In addition to

these human rights instruments the international community has adopted specific legal instruments - such as the International Convention on the Elimination of All Forms of Racial Discrimination, the ILO Convention concerning discrimination in respect of employment and occupation,[37] the UNESCO Convention against Discrimination in Education,[38] and the Declaration on the Elimination of All Forms of Intolerance and of Discrimination Based on Religion and Belief (Assembly resolution 36/55, annex) - which affirm the political, socio-economic, legal, cultural, religious and educational rights of minorities.

71. The Declaration of the Rights of Persons Belonging to National or Ethnic, Religious and Linguistic Minorities (Assembly resolution 47/135, annex) underscores the right of minorities to participate in the political, socio-economic and cultural lives of their respective societies. Article 4, paragraph 1, declares that States shall take measures where required to ensure that persons belonging to minorities may exercise fully and effectively all their human rights and fundamental freedoms without any discrimination and in full equality before the law. In paragraph 2 of the same article, it also encourages States to create favourable conditions for minorities to express their characteristics by developing their culture, language, religion, traditions and customs, except where specific practices are in violation of national law or contrary to international standards. In paragraph 5 it says that States should consider appropriate measures to enable persons belonging to minorities to participate fully in the economic progress and development in their country.

72. In the Copenhagen Declaration on Social Development,[39] adopted at the World Summit for Social Development, the concept of social integration was affirmed as one of the pillars of social progress. Social integration requires the formulation and implementation of policies aimed at eliminating exclusionary discrimination in all its forms. It implies the recognition of ethnic, religious and cultural diversity, as well as the protection and promotion of the rights of persons belonging to minority groups. It advocates the adoption of measures designed to promote an "inclusive society" in order to facilitate the full participation of minorities in all aspects of the political, economic, social, religious and cultural life of their societies. The Social Summit encouraged the implementation of international legal instruments and of agreed norms concerning the prevention of discrimination against minorities, particularly racism, social discrimination, religious intolerance in all its various forms, xenophobia and all forms of discrimination in all walks of life in societies. Two other germane concepts emerging at the Social Summit are the notions of popular participation and enabling environment. The participation of social groups in the decision-making process implies and leads to empowerment, that is, greater control over the socio-economic, political and cultural issues that affect one's destiny. A socially accommodating, or enabling, environment is a precondition for the protection and advancement of basic human rights. It implies majority acceptance of the fundamental rights of minorities to develop and preserve their culture, traditions, religion and language.

73. The mandate of the Working Group on Minorities of the Subcommission on Prevention of Discrimination and Protection of Minorities includes the examination of proposals designed to resolve problems involving minorities and the recommendation of measures to promote and protect the rights of persons

belonging to national, ethnic, religious and linguistic minorities. At its first session, held in late August 1995, the Working Group gave priority to the constitutional and legal provisions protecting the existence and identity of minorities, the right to use their own language, profess and practise their religion and enjoy their own culture, the effective participation of minorities, educational issues, national recourse and conciliation machineries, regional mechanisms for the protection of minorities, the contribution of advisory services and technical assistance, and cooperation and coordination with the international community (see E/CN.4/Sub.2/1996/2).

74. Through the Subcommission the United Nations is developing a monitoring system to provide information on the status of specific minority groups to assess the different forms and levels of discrimination. This assessment will include an analysis of specific cases, the development of mechanisms for meaningful exchanges of information, the creation of programmes to prevent or remedy cases of discrimination of minorities and investigation of ways to resolve conflicts involving minorities. This activity at the international level will assist and supplement efforts undertaken at the national level. It will raise the awareness of minority issues at the international level and have a positive effect on national laws and regulations concerning the promotion, protection and integration of minorities.

4. Positive trends in reducing discrimination against minorities

75. The discussion and articulation of specific problems related to discrimination against minorities led to an enhancement of rights for a number of minorities in the 1990s. In paragraph 67 of the Programme of Action the World Summit on Social Development noted progress in several broad areas: "the ongoing process of decolonization; the elimination of apartheid; the spread of democracy; wider recognition of the need to respect human dignity, all human rights and fundamental freedoms and cultural diversity; the unacceptability of discrimination; increasing recognition of the unique concerns of indigenous people in the world; an expanded notion of collective responsibility for all members of a society; expanded economic and educational opportunities and the globalization of communication; and greater possibilities for social mobility, choice and autonomy of action".[40]

76. There is evidence of progress in addressing problems of discrimination against minorities. General awareness of the issues at stake has grown, and there is greater pressure upon recalcitrant States or majority groups to undertake measures to alleviate discrimination and protect minority groups. Specific examples of progress include the following:[41]

(a) The constitutional and main legal provisions protecting the identity of minorities were modified in Belarus, Colombia, India, Norway, Poland and Ukraine, and new laws on ethnic and national minorities were drafted on the basis of the Declaration on the Rights of Persons Belonging to National or Ethnic, Religious and Linguistic Minorities (Assembly resolution 47/135, annex). Ukraine adopted several legislative acts protecting the rights of minorities. Norway passed laws to protect the existence and identity of Sami minority. The Sri Lankan Constitution recognizes the right of citizens to profess and practise

religions other than Buddhism and recognizes both Tamil and Sinhalese as official languages. These legal norms contribute to the reduction of discrimination against minorities; results depend on the strict implementation of these provisions;

(b) Steps were taken to protect the right of minorities to enhanced education, including the right to receive instruction in their own language. Poland has adopted measures to ensure that admission to minority schools is free and education in the languages of the minorities is available. Finland and Norway guarantee the right of the Sami minority to receive instruction in their own language;

(c) Australia, Austria, Denmark, Mexico and Portugal introduced educational policies which favour cultural integration as opposed to cultural assimilation and respect the separate identity of minorities;

(d) Specific conciliation mechanisms were introduced in a number of countries to address minority problems. Protracted civil conflicts in Angola, Bosnia and Herzegovina, and Liberia were alleviated as a result of concrete conciliation mechanisms developed for introducing nation building measures and ensuring protection of the rights of minorities;

(e) The Russian Federation signed bilateral treaties within the Commonwealth of Independent States and the Baltic States with the aim of protecting the rights of Russian minorities. Hungary and Slovakia signed a bilateral treaty to regulate the treatment of minorities;

(f) Regional mechanisms for dealing with minority issues were put in place in Europe. Examples include the European Convention on Human Rights and the Council of Europe's Framework Convention on National Minorities, which went into force at the end of 1996. These frameworks stress the legitimate rights of minorities (protection of identity, protection from forced assimilation, and so forth), but also take into account the legitimate interests of the states with respect to their territorial integrity.

5. Persistence of discriminatory patterns

77. Despite some progress discrimination against minority and other social groups persists. In the past several years a number of negative developments have occurred, including social polarization and fragmentation; widening disparities and inequalities of income and wealth within and among nations; problems arising from uncontrolled urban development and the degradation of the environment; marginalization of people, families, social groups, communities and even entire countries; and strains on individuals, families, communities and institutions as a result of the rapid pace of social change, economic transformation, migration and major dislocations of population, particularly in the areas of armed conflict.

78. Restrictive public policies invariably restrict the rights of minority groups and are tantamount to discrimination. Political discrimination takes the form of restrictions on political organizing, freedom of movement and freedom of

expression; denial of voting rights; judicial proceedings as well as discrimination in recruitment to all sectors of public activity, the military or police, the civil service and political office. Political discrimination is often coupled with socio-economic and cultural discrimination. In developing countries the public sector, which is usually relatively large, represents the main source of professional employment. Discriminatory barriers to minority recruitment thus restrict economic opportunities for individual members of the minority group and help to perpetuate material inequalities.[42] Politically restricted minorities also suffer impediments to their cultural and/or linguistic expression. Restrictions on the use of a minority's language often prompt protracted ethno-national conflicts and demands for sub-state autonomy or complete independence. Language policy is also related in complex ways to the perpetuation of economic and political disadvantages; it can, for instance, form a formidable barrier to access to education for minorities.

79. Discrimination is commonly associated with high levels of social and health difficulties among the most severely disadvantaged minorities. Members of such minority groups are more likely to have high infant mortality rates, be more susceptible to diseases, engage in substance abuse and crime, and have high rates of arrest and incarceration, which often reinforces political and socio-economic discrimination. These indicators reflect the cumulative consequences of poverty, powerlessness and the erosion of group culture.

80. Minorities that are subject to discrimination commonly respond by devising strategies of resistance. Minorities seeking independence or sub-state autonomy at the outset usually try conventional politics to protect and solicit support. If those strategies fail to achieve tangible gains, however, minority groups may shift tactics to local rebellion, guerrilla warfare or terrorism, threatening the cohesion of sovereign nation-states and undermining political stability.

D. Policies and measures to combat discrimination

81. Governments combat discrimination based on race, gender or ethnic origin by (a) promoting equality of opportunity by outlawing discrimination and making health care and education available to all and (b) seeking equality of results by granting preferences to members of disadvantaged groups. The second approach has been given a variety of labels, including benign quotas, reverse discrimination, reservation policy, employment equity, positive discrimination, positive action and affirmative action. In contrast with equal opportunity, which focuses on procedures and individuals, this approach is results oriented and group oriented. The two approaches are not mutually exclusive. In the United States, for example, courts frequently impose hiring quotas on organizations found guilty of discrimination against women or disadvantaged minorities.

82. The Universal Declaration of Human Rights (Assembly resolution 217 (III)) declares that "all human beings are born free and equal in dignity and rights" (article 1). It emphasizes that "all are equal before the law and are entitled without any discrimination to equal protection of the law" (article 7) and that "higher education shall be equally accessible to all on the basis of merit" (article 26). Signatories to the International Covenant on Economic, Social and

Cultural Rights (Assembly resolution 2200 (XXI) A, annex) recognize further the "equal opportunity for everyone to be promoted in his employment to an appropriate higher level, subject to no considerations other than those of seniority and competence" (article 7 (c)).[43] The language is clear: individuals are to be judged solely on competence and experience, without preferences granted on the basis of race, gender or ethnic origin.

83. The International Convention on the Elimination of All Forms of Racial Discrimination (Assembly resolution 2106 (XX), annex) permits temporary discrimination in favour of disadvantaged groups: "States Parties shall, when the circumstances so warrant, take, in the social, economic, cultural and other fields, special and concrete measures to ensure the adequate development and protection of certain racial groups or individuals belonging to them ... These measures shall in no case entail as a consequence the maintenance of unequal or separate rights for different racial groups after the objectives for which they were taken have been achieved" (article 2, para. 2). Similar language is adopted in article 4, paragraph 1, of the Convention on the Elimination of All Forms of Discrimination against Women (Assembly resolution 34/180, annex): "Adoption by States Parties of temporary special measures aimed at accelerating de facto equality between men and women shall not be considered discrimination as defined in the present Convention, but shall in no way entail as a consequence the maintenance of unequal or separate standards; these measures shall be discontinued when the objectives of equality of opportunity and treatment have been achieved." These conventions allow Governments to abandon the principle of de jure equality in order to raise the economic, social or cultural level of members of a disadvantaged group, but the ultimate goal remains equality of opportunity, not de facto equality. By 30 July 1996, 146 countries had ratified the International Convention on the Elimination of All Forms of Racial Discrimination and 153 had ratified the Convention on the Elimination of All Forms of Discrimination against Women.

1. Policies to promote equality of opportunity

84. Many Governments have created specialized bodies to promote equality of opportunity across races and between men and women. Typically these organizations report to a government department or ministry and have only promotional or consultative powers, although some have been given independence and the authority to investigate and act on complaints. Examples of the latter include the Equal Opportunities Commission and the Commission for Racial Equality in the United Kingdom, the Human Rights and Equal Opportunities Commission in Australia, the Human Rights Commission in Canada, the Human Rights Commission and Race Relations Conciliator in New Zealand and the Equal Opportunity Commission in the United States.

85. There is an increasing tendency for legislatures to impose substantial penalties, including imprisonment, for discrimination by race or gender in recruitment, training and conditions of employment. A few countries, such as France, the Netherlands and Sweden, incorporate these provisions in the Penal or Criminal Code, but most countries enumerate them in specific acts of legislation.[44]

86. Regardless of the severity of penal sanctions, legislation will not deter discrimination unless cases are prosecuted, something that is rare in many countries. Victims of discrimination may be reluctant to file formal accusations for three reasons. First, discrimination is difficult to prove, and the burden of proof lies with the accuser; the person accused of discrimination, who often holds all of the records that might constitute evidence, frequently wins simply by remaining silent. Some countries, notably France, Germany, Italy and Switzerland, have responded to this problem by shifting the burden of proof onto the accused once the complainant makes a plausible case for the existence of an illegal discriminatory practice. Second, the prospect of significant financial costs deters many potential claimants, who may not have recourse to legal aid or the backing of a trade union. Some countries deal with this problem by providing free legal assistance. In Spain the Constitution guarantees every person the right to legal assistance; in Australia financial assistance is provided in sex discrimination cases to the side judged better founded. Third, potential claimants may fear reprisal. In employment discrimination this typically takes the form of dismissal of the worker and those who helped him or her. Effective promotion of equal opportunity in employment requires protection against such dismissal.

87. Discrimination is most difficult to deal with when it is indirect, the result of apparently neutral rules that adversely affect a particular race, gender or ethnic group. Rules based on pregnancy, for example, affect only women; those based on child care affect women disproportionately. Uniform height and weight requirements discriminate against women and some ethnic groups. The requirement that employees work on a given day of the week discriminates against groups whose religion proscribes doing so. In each case a court, tribunal or commission - in extreme cases, a legislature - must determine whether a particular requirement is necessary or is merely a covert way to discriminate.[45]

88. Language requirements imposed by Governments and private employers are perhaps the most common form of indirect discrimination against ethnic groups. Often there is good reason to require fluency in a particular language. Taxi drivers, for example, provide better service if they speak the language of the country in which they work, even if this discriminates against recent immigrants. But language requirements are also used for the sole purpose of discriminating against ethnic groups. In South Africa, employers are known to demand fluency in English and Afrikaans even though the work may not require fluency in both languages.[46] For many years English was the language of Government and the judiciary in Sri Lanka, although no more than 10 per cent of the population understood and spoke the language. Requiring civil servants to speak English was elitist but not discriminatory, since English is the second language of both Sinhalese and Tamils, Sri Lanka's two main ethnic groups. In 1956 the Government proclaimed Sinhala the official language of the country, making it nearly impossible for minority Tamils to obtain government jobs.[47] This precipitated a conflict between Tamils and Sinhalese that continues to this day. In 1988, in an effort to resolve the conflict, the Government of Sri Lanka made Tamil a second official national language.

89. When effectively enforced, laws against unjustified discrimination by schools and employers can generate equality of opportunity for members of all

races and all ethnic groups. When some members of society are severely disadvantaged, however, laws against discrimination are insufficient and meaningful equality of opportunity requires measures to ensure that every child, regardless of race or ethnic origin, receives adequate nutrition and health care, including pre-natal care, and a minimum quality and quantity of basic education, including pre-school education. In addition, low-income individuals may require financial aid to enable them to pursue higher education, purchase homes or establish their own businesses. The intent of such programmes is to combat poverty rather than end discrimination, but disadvantaged groups benefit disproportionately because they contain a disproportionate number of families living in poverty.

90. With rare exceptions ethnic minorities are not prevented from attending public schools, but their performance suffers when instruction is in a language other than their own. Although minorities typically receive permission to set up their own schools, they seldom have access to taxation or public funds. Some countries, notably Canada, Italy, New Zealand, the Nordic countries, the Russian Federation and the United States, attempt to overcome language barriers by providing bilingual educational programmes for linguistic minorities. In Peru the Government is training 60 bilingual teachers who will train an additional 2,400 teachers to teach in indigenous communities. Nicaragua has also launched a bilingual programme for indigenous communities which reaches more than 13,000 children in the North Atlantic Coast Region.

91. Equal opportunity laws may be necessary to achieve gender equality in the workplace, but they are never sufficient. Women, on average, enter universities and the labour market with a considerable handicap compared with their male counterparts for two reasons. First, discrimination exists within the family. Parents typically expect less - or at least expect different things - of female children and often remove them from school at an earlier age than their male siblings. Parental goals for children can be expected to change only slowly, if at all. In the meantime Governments can help change behaviour by enforcing school attendance laws, making secondary education compulsory for both boys and girls, and increasing the minimum age for marriage so that girls remain in school longer. Second, much legislation exists that discriminates against women and makes it impossible for them to participate in the labour market on equal terms with men. Many countries have laws, for example, that restrict the type of work that pregnant women may perform; others prohibit night work, restrict overtime or forbid the use of heavy machinery by women. However well intentioned such protective laws may be, their repeal should be considered if the goal of full equality of opportunity is to be reached. Similarly, compulsory maternity leave and child-care benefits can raise the cost to an employer of female labour. Governments can solve this problem by funding benefits out of general revenue or by allowing either parent to qualify for leave and child-care benefits. Laws barring women from holding legal title to land or restrict their rights to inheritance represent yet another obstacle to gender equality.[48]

2. Preferential policies

92. Adhering to a strict interpretation of equality before the law, many Governments and legal systems refuse to allow any discrimination, even benign discrimination, based on race, gender or ethnic origin. Others sacrifice the principle of non-discrimination (de jure equality) to varying degrees in order to promote de facto equality. The conflict between these two approaches is real. Preferential policies have supporters as well as opponents, and debate between the two sides at times becomes heated, as evidenced by the rash of suicides in India by young Brahmins protesting the reservation for lower castes of coveted university places and civil service jobs[49] or by widespread public opposition to affirmative action in the United States.[50]

93. Preferential policies can be justified as a means of promoting equality of opportunity. Members of disadvantaged groups may be unfairly perceived as unable to function in a particular trade or profession; breaking down barriers of prejudice with preferences can demonstrate, for example, that a female electrician is as competent as a male, or that a minority student can succeed in medical school. Such reasoning lies behind the conventions on the elimination of racial discrimination and of discrimination against women; it provides a rationale for preferential quotas as long as all (or nearly all) members of the disadvantaged group are blocked from entry into the targeted trade or profession. When the goal is equality of opportunity, preferences must be temporary; there is no justification for retaining preferences until full de facto equality is reached. In practice, however, Governments find it difficult to remove preferences once they are in place. Early in this century British colonial rulers, for example, introduced preferential quotas known as "reservations" to favour disadvantaged groups in the Indian subcontinent, Fiji and Malaysia; the countries retain these quotas to this day.

94. Preferential policies attack the manifestations of discrimination, but not discrimination itself. Because the principle of merit is retained for applicants within each group, beneficiaries of preferences tend to be the wealthiest and least-deprived group members. (Indians refer to this phenomenon as "creaming".) Such programmes do not therefore substitute for anti-poverty programmes. Nor do they substitute for laws against discrimination, for they provide no benefits for groups such as Chinese or Jewish minorities, which suffer discrimination in many countries but are not, on average, disadvantaged.

95. A wide range of preferential policies based on race, gender or ethnic origin is in place in countries throughout the world today. In some countries preferences are voluntary; elsewhere they are compulsory. In some countries preferences are limited to the public sector; elsewhere they apply to both private and public organizations. Preferences take many forms, including targets and quotas, bonuses on competitive examinations and subsidization of competitive bids.

96. A priori, it is impossible to predict whether quotas will be more effective or less effective than other forms of preferences. In a university entrance examination, for example, for any quota for members of a designated group there is a percentage point preference which will produce the same result. Without more information, it is impossible to determine whether a minority is better

served by a quota or by a preference, since a bonus of, say, 10 percentage points may be insufficient to lift even a single member of the disadvantaged group to a passing mark, or it may lift the scores of many group members far above those of other candidates.

97. For the most part member States of the European Union limit preferential programmes to vocational training for women and minorities; like many Governments in the world today, in general they do not allow the use of race, gender or ethnic origin as criteria for admission of students to universities or for recruitment and promotion of employees. In northern Germany local governments in recent years have given preference in some instances to female applicants for government jobs over equally qualified males, but this practice was struck down by the European Court of Justice and will likely be suspended.[51]

98. Some Governments, such as those in Australia, Canada, Namibia and South Africa, encourage the use of preferences to favour disadvantaged groups but do not impose them on universities or employers. In some cases employers are required to establish goals and to file reports on progress in recruiting and promoting members of designated groups. Employers face penalties for failure to file a report, although no penalties are imposed for failure to reach a target. Such programmes serve an educational function: they make employers and universities aware that Governments support ethnic and gender diversity in the workplace and the classroom. They also allow employers and educational institutions to engage in "benign" discrimination without fear of challenge from applicants passed over in favour of less-qualified candidates who benefit from preferences.

99. In most countries with preferential policies which favour disadvantaged groups participation in the programme is compulsory rather than voluntary. Often, as in India, Israel, Pakistan and Switzerland, preferences are restricted to employment in the civil service and public enterprises. Sometimes, as in India and Pakistan, admission to public universities is also subject to preferences. Private employers in those countries are expected to hire and promote solely on the basis of merit; by law they are not allowed to discriminate by race, gender or ethnic origin. Privatization of public enterprises in these instances can create problems for those who benefit from preferences, since the privatized firm is no longer required to hire and promote a quota of members of designated groups. In countries such as Fiji, Malaysia and the United States, which have strong programmes, preferential policies are imposed on private and public organizations alike, and the ethnicity or gender of the owner of a firm is noted in order to grant preferences in awarding government contracts.

100. Preferential policies do not extend beyond employment, education and government procurement; most surprisingly, no country has imposed quotas or preferences in housing. De jure equality in access to housing is strictly enforced in most countries; it is generally illegal to refuse to rent or sell housing because of race, gender or ethnic origin. In contrast, it is legal to refuse to rent or sell to a person with insufficient income, so de facto equality is nowhere to be found. Governments could conceivably compel builders to supply a minimum proportion of new housing units to members of a disadvantaged group. To reach the assigned target a builder of luxury homes

would have to advertise widely and would probably have to reduce the selling or rental price for members of the designated group.

3. Equality of opportunity versus equality of results

101. The International Bill of Human Rights, which consists of the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights and the International Covenant on Civil and Political Rights, guarantees freedom from discrimination to all members of the human family. According to article 26 of the International Covenant on Civil and Political Rights (Assembly resolution 2200 (XXI), annex):

> All persons are equal before the law and are entitled without any discrimination to the equal protection of the law. In this respect, the law shall prohibit any discrimination and guarantee to all persons equal and effective protection against discrimination on any ground such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.

102. Individuals are endowed with unequal amounts of wealth, talent, intelligence, physical strength and beauty. The International Bill of Human Rights does not address these inequalities or the income inequalities that result from them; it promises only de jure equality, not de facto equality. No person has a right to a high paying job or to a university place; everyone has a right to compete, on the basis of merit, for jobs and university admission. Equal opportunity is a human right; equality of results is not.

103. The conventions on the elimination of racial discrimination and of discrimination against women allow Governments to implement temporary programmes that deny members of advantaged groups their right to equal opportunity in order to give preferences to members of disadvantaged groups. Such policies are discriminatory and violate the International Bill of Human Rights. Derogation of human rights, even temporarily, ought not to be done lightly. Article 4, paragraph 1, of the International Covenant on Civil and Political Rights allows similar derogation of human rights "in time of public emergency which threatens the life of the nation", but only "to the extent strictly required by the exigencies of the situation". The language that permits preferential policies is less restrictive, but it does suggest that preferences are acceptable only as an instrument to achieve equality of opportunity and are never justified as permanent policy.

104. Effective enforcement of laws against racial, ethnic and gender discrimination can generate equality of opportunity for all members of society. But enforcement of anti-discrimination laws will not produce equality of results. To move towards this type of equality Governments routinely use taxation, along with expenditure on health, education and welfare, to redistribute income from affluent members of society to the poor. Such income redistribution does not constitute a preferential policy, nor is it a violation of human rights, as long as an individual's tax bill and his or her access to public health, education and welfare does not depend on race, gender or ethnic origin.

105. When equality of opportunity produces large disparities in average results between groups, Governments do not attempt to intervene with taxation or expenditure policy; Governments rarely adjust their tax rates or welfare payments according to race, gender or ethnic origin. Instead, some Governments ask citizens to give up their right to equal opportunity in order to guarantee all groups that the economic and social status of their members will be closer, on average, to that of the rest of the country. There may exist a consensus that the good of the whole requires such a sacrifice of individual rights. The goal is then the equitable distribution of jobs across groups, not equality of opportunity, and preferences thus become permanent rather than temporary. Examples of such "consensus quotas" include the Swiss Federation, which allocates a fixed proportion of jobs in the public sector to each of the country's main language groups,[52] and international organizations, which recruit staff from nationals of all member States in an agreed-upon proportion. With consensus, quotas can build support for a federal or international bureaucracy. Without consensus, ethnic, gender and racial quotas can be extremely divisive.

106. Too often Governments impose quotas or other preferences without first building consensus, thus alienating citizens who lose their right to compete for jobs on equal terms with individuals who belong to a disadvantaged group. Nonetheless, Governments find preferences attractive because they do not require increased taxation or expenditure. It is much easier to impose quotas than to attack the underlying causes of de facto inequality between groups, including discrimination, poverty, poor education, malnutrition and geographic isolation.

Notes

[1] This section is based Gerry Rodgers, Charles Gore, and José B. Figuéiredo, eds., Social Exclusion: Rhetoric Reality Responses (Geneva, International Labour Organization, 1995).

[2] See E. Bonacich, "A theory of ethnic antagonism: the split labour market", American Sociological Review, vol. 37 (October 1972), pp. 547-559.

[3] Report of the World Summit for Social Development, Copenhagen, 6-12 March 1995 (United Nations publication, Sales No. E.96.IV.8), chap. I, resolution 1, annex II, para. 2.

[4] See The United Nations and Human Rights 1945-1995 (United Nations Department of Public Information, Sales No. E.95.I.21), which contains a set of United Nations documents on human rights and fundamental freedoms within the Organization. See also Abdulrahim P. Vijapur, "The principle of non-discrimination in international human rights law: the meaning and scope of the concept", India Quarterly, A Journal of International Affairs, vol. XLIX, No. 3 (1993), pp. 9-83.

[5] Catherine Brolman, Peoples and Minorities in International Law (Dordrecht, the Netherlands, Martin Nijthof Publisher, 1993).

[6] The World's Women 1995. Trends and Statistics (United Nations publication, Sales No. E.95.XVII.2), p. 132, table 8.

[7] See Irene Tinker, Persistent Inequalities. Women and World Development (New York, 1990) Oxford University Press; Mehra, Rekha, David Bruns, Paul Carlson, Geeta Rao Gupta and Margaret Lycette, Engendering Development in Asia and the Near East: A Sourcebook (Washington, D.C., International Center for Research on Women, 1992); Women in Latin America and the Caribbean in the 1990s. Comision Economica para America Latina y el Caribe. Notas Sobre la Economia y el Desarrolo, No. 562/563 (Santiago, Chile, September 1994).

[8] Organisation for Economic Cooperation and Development, Employment Outlook. July 1996 (Paris, OECD, 1996), p. 8, table 1.6.

[9] The World's Women 1995. Trends and Statistics, chart 5.20.

[10] Some scholars suggest that the gender wage ratio disparity reflects the cultural dimension of female deprivation in India. The lowest ratio corresponds to the states with strong Hindu tradition. See Partha Dasgupta, An Enquiry into Well-Being and Destitution (Oxford, Clarendon Press, 1993), p. 314, table 11.2 and p. 317.

[11] Marilyn Rueschemeyer, ed., Women in the Politics of Postcommunist Eastern Europe (Armonk, N.Y., 1994), M. E. Sharpe, Inc., pp. 7-8.

[12] V. Spike Peterson and Anne Sisson Runyan, Global Gender Issues. Dilemmas in World Politics (Boulder, Colorado, 1993, Westview Press), p. 54, figure 3.2.

[13] In Saudi Arabia and Kuwait, for example, women are barred from entering business and law schools.

[14] See Manneke Redclift and M. Thea Sinclair, eds., Working Women. International Perspectives on Labour and Gender Ideology (London, Routledge, 1991); World Bank, Indigenous people and poverty in Latin America. Technical Department. Latin America and the Caribbean Region, Washington, D.C., 1993; Jonathan R. Veum, "Training among young adults: who, what kind, and for how long?" Monthly Labour Review, vol. 116, No. 8 (August 1993), pp. 27-32; Jonathan R. Veum and Andrea B. Weiss, "Education and the work histories of young adults", Monthly Labour Review, vol. 116, No. 4 (April 1993), pp. 11-20; Cynthia B. Lloyd and Beth T. Niemi, The Economics of Sex Differentials (New York, Columbia University Press, 1979).

[15] Jonathan R. Veum, "Training among young adults: who, what kind, and for how long?" Monthly Labour Review, vol. 116, No. 8 (August 1993), pp. 27-32.

[16] Republic of Niger, Ministry of Social Development, Population and Women Advancement, Women Advancement Directorate, Niger Women. Myth and Reality (Niamey, September 1995), pp. 29-33.

[17] See Joyce Gelb and Marian Lief Palley, eds., Women of Japan and Korea. Continuity and Change (Philadelphia, Temple University Press, 1994), p. 215.

[18] There is no agreement among scholars on what constitutes an entitlement set. Sen, however, restricts entitlements to "bundles of commodities over any of which a person can establish command, by using the rules of acquirement that

govern his circumstances". See Amarthya Sen, Resources, Values and Development, (Oxford, Basil Blackwell, 1984), p. 30.

[19] In Sen's view, these rules, or "moral principles", have an exclusion aspect and affect the acquisition of capabilities by children. They are largely responsible for initial gender capability inequality. See Resources, Values and Development, p. 26.

[20] In many developing countries of Africa, Latin America and Asia land is generally owned by men. In Peru and Bolivia married women cannot hold property in their own names. Land reform in most developing countries (including Egypt, the Dominican Republic, Colombia and the United Republic of Tanzania) by-passed women. In many pastoralist societies of Africa and Asia women are not allowed to own cattle. See Helen Kreider Henderson (ed.), Gender and Agricultural Development. Surveying the Field (Tucson, University of Arizona Press, 1995).

[21] Rebecca G. Cook, ed., Human Rights of Women. National and International Perspectives (Philadelphia, University of Pennsylvania Press, 1994), p. 498.

[22] V. Spike Peterson and Anne Sisson Ruyan, Global Gender Issues. Dilemmas in World Politics (Boulder, Colorado, Westview Press, 1993), p. 108.

[23] Some studies have found that boys are more likely to be taken to clinics or hospitalized than girls despite equal incidences of infection and the availability of free clinical care in the area under study. According to one study, 66 per cent more boys than girls were taken to health facilities for treatment of diarrhoea. See L. C. Chen, E. Huq and S. D'Souza, "Sex bias in the family allocation of food and health care in rural Bangladesh", Population and Development, vol. 7, No. 3 (1981), pp. 435-474; N. I. Sabir and G. J. Ebrahim, "Are daughters more at risk than sons in some societies?" Journal of Tropical Paediatrics, No. 30 (1984).

[24] See Margaret Lycette, "Improving women's access to credit in the third world: policy and project recommendations", Occasional Paper No. 1 (Washington, D.C.: International Center for Research on Women, 1984); Marilyn Carr, Women and Food Security: The Experience of the SADCC Countries (London, Intermediate Technology Publications, 1991); Kathleen Staudt, Agricultural Policy Implementation: A Case Study from Western Kenya (West Hartford, Conn., Kumarian Press, 1985); and Luz Maria Abreu, "The experience of MUDE Dominicana in operating a women-specific credit programme", in Women's Ventures: Assistance to the Informal Sector in Latin America, Marguerite Berger and Myra Buvinic, eds. (West Hartford, Conn., Kumarian Press, 1989).

[25] See George Psacharopoulos and Zafiris Tzannatos, Women's Employment and Pay in Latin America. Overview and Methodology (Washington, D.C., World Bank, 1992); George Psacharopoulos and Harry Anthony Patrinos, eds., Indigenous People and Poverty in Latin America. An Empirical Analysis (Washington, D.C., World Bank, 1994); R. E. Wright and J. F. Ermisch, "Gender discrimination in the British labour market: A reassessment", Economic Journal, vol. 101, No. 406 (1991), pp. 508-522; N. Birdsall and R. Sabot, eds., Unfair Advantage: Labour Market Discrimination in Developing Countries (Washington, D.C., World Bank, 1991); Cynthia B. Lloyd and Beth T. Niemi, The Economics of Sex Differentials

(New York, Columbia University Press, 1979); Manneke Redclift and M. Thea Sinclair, eds., Working Women. International Perspectives on Labour and Gender Ideology (London, Routledge, 1991); and Robert Masao Jiobu, Ethnicity and Inequality (New York, State University of New York Press, 1990).

[26] See Guy Standing, "Cumulative disadvantage? Women Industrial Workers in Malaysia and the Philippines", World Employment Programme, Working Paper (Geneva, International Labour Office, July 1992); G. Johnson and G. Solon, "Estimates of the Direct Effects of Comparable Worth Policy", American Economic Review, vol. 76, No. 5 (1986), pp. 1117-1125; and F. D. Blau and A. H. Beller, "Trends in earnings differentials by gender, 1971-81", Industrial and Labour Relations Review, vol. 41, No. 4 (1988).

[27] Standing, "Cumulative disadvantage? Women industrial workers in Malaysia and the Philippines", table 43.

[28] Ibid., table 47.

[29] Ibid., pp. 58 and 62.

[30] Psacharopoulos and Tzannatos, Women's Employment and Pay in Latin America. Overview and Methodology, table A6.4b.

[31] David R. Jones and Gerald H. Makepeace, "Equal worth, equal opportunities: Pay and promotion in a internal labour market", Economic Journal, No. 106 (March 1996), pp. 406-407.

[32] Lin Lean Lim, More and Better Jobs for Women. An Action Guide (Geneva, International Labour Office, 1996), p. 61.

[33] National Now Times, April 1992, p. 12; and The World's Women 1995. Trends and Statistics (United Nations publication, Sales No. E.95.XVII.2), p. 153.

[34] Of course, in some countries, such as Burundi, Rwanda and South Africa, it has been the dominant minority which has discriminated against the majority.

[35] See "Equality in employment and occupation" (Geneva, International Labour Conference, 83rd session, 1996), pp. 13-73.

[36] Gurr, for example, has identified 268 minority groups for the purpose of monitoring and quantifying degrees of different types of discrimination over time. See J. Gurr, "Minority rights at risk: A global survey" (College Park, MD: Center for International Development and Conflict Management of the University of Maryland, 1996).

[37] United Nations, Treaty Series, vol. 362, No. 5181.

[38] Ibid., vol. 429, No. 6193.

[39] See Report of the World Summit for Social Development, annex II, chap. IV.

[40] Ibid.

[41] These examples were reported by the countries themselves in meetings and reports. See reports of the Secretary-General on (a) the "Effective promotion of the Declaration on the Rights of Persons belonging to National or Ethnic, Religious and Linguistic Minorities" (A/49/415 and Add.1), (b) "Possible ways and means of facilitating the peaceful and constructive solution of problems involving minorities" (E/CN.4/Sub.2/1995/33), and (c) "Elimination of racism and racial discrimination" (A/50/476).

[42] See World Bank, "Indigenous People and Poverty in Latin America" (Washington, D.C., 1994) for an analysis of the pervasive and severe effects of poverty among Latin America's indigenous population. The study shows the high correlation between low educational attainment and poverty levels among marginalized indigenous ethnic groups in the region.

[43] Similar statements in support of the principle of equal opportunity can be found in the Discrimination (Employment and Occupation) Convention, adopted in 1958 by the General Conference of the International Labour Organization, and in the Convention against Discrimination in Education, adopted in 1960 by the General Conference of UNESCO.

[44] See Equality in Employment and Occupation, International Labour Conference, 83rd session, 1996 (Geneva, International Labour Office, 1996), pp. 80-83, and Equality in Employment and Occupation (International Labour Conference, 75th session, 1988 (Geneva, International Labour Office, 1988), pp. 232-235.

[45] It is not always obvious whether a requirement is reasonable or not. Sikhs who wear their hair in turbans, for example, are unable to wear safety helmets, which might appear to be a valid reason to exclude them from construction work. But the United Kingdom's Employment Act (1989) exempts Sikhs from wearing safety helmets.

[46] See South Africa's Green Paper "Employment and Occupational Equity" (Department of Labour Directorate: Equal Opportunities, 1 July 1996).

[47] Tamils also faced administrative regulations that required children to be educated in the language of their parents, effectively blocking Tamil entry into Sinhalese schools. See S. J. Tambiah, Sri Lanka: Ethnic Fratricide and the Dismantling of Democracy (Chicago, University of Chicago Press, 1986), pp. 73-76; Chelvadurai Manogaran, Ethnic Conflict and Reconciliation in Sri Lanka (Honolulu, University of Hawaii Press, 1987) pp. 115-130; and Thomas Sowell, Preferential Policies: An International Perspective (New York, W. Morrow, 1990), pp. 76-87.

[48] For a survey of these issues, see World Bank, Toward Gender Equality: The Role of Public Policy (Washington, D.C., World Bank, 1995).

[49] Dharma Kumar, "The affirmative action debate in India", Asian Survey, vol. 33, No. 3 (March 1992), pp. 290-302. See also Marc Galanter, Competing Equalities: Law and the Backward Classes in India (Berkeley, University of

California Press, 1984), which is summarized in J. Faundez, Affirmative Action: International Perspectives (Geneva, International Labour Office, 1994), pp. 22-25.

[50] See Seymour Martin Lipset, "Affirmative action and the American creed", Wilson Quarterly, vol. 16 (Winter 1992), pp. 52-62 and Jack Citrin, "Affirmative action in the people's court", The Public Interest, No. 122 (Winter 1996), pp. 39-48.

[51] European Court of Justice, Case c-450/93, "Interpretation of Council Directive 76/207 regarding the implementation of the principle of equal treatment for men and women", 17 October 1995.

[52] At the upper levels of the Swiss civil service recruitment is proportional to the three main language groups, the Italian-speaking minority is deliberately overrepresented in the rest of the federal civil service and in public enterprises. See Carol L. Schmid, Conflict and Consensus in Switzerland (Berkeley, University of California Press, 1981), especially pp. 39-40 and pp. 150-157.